Strategic
Oil & Gas Ltd.

Consolidated Financial Statements

For the three and nine months ended

September 30, 2011 and 2010

The accompanying unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2011 and 2010 have been prepared by management and approved by the Board of Directors of the Corporation.

Strategic Oil & Gas Ltd.

Condensed interim consolidated balance sheets

	September 30, 2011 *(unaudited)*	December 31, 2010 *(audited)* *(Note 18)*
Assets	**$**	$
Current assets:		
Cash and cash equivalents	**2,962,780**	30,974,764
Trade and other receivables	**5,165,530**	3,863,732
	8,128,310	34,838,496
Property, plant, and equipment, net (*Note 6*)	**71,838,469**	48,663,681
Exploration and evaluation assets (*Note 5*)	**10,701,231**	5,245,316
Goodwill *(Note 7)*	**643,357**	643,357
	91,311,367	89,390,850

Liabilities and Shareholders' Equity

Current Liabilities:		
Accounts payable and accrued liabilities	**14,961,652**	6,127,032
Deferred price premium on flow-through shares *(Note 9)*	**-**	1,046,500
Debentures *(Note 10)*	**3,425,225**	3,425,225
	18,386,877	10,598,757
Long Term Liabilities:		
Decommissioning liabilities *(Note 11)*	**11,072,745**	11,298,520
	29,459,622	21,897,277
Shareholders' Equity	**61,851,745**	67,493,573
	91,311,367	89,390,850

Commitments *(Note 18)*
Effects of adoption of IFRS *(Note 19)*
Subsequent events *(Note 20)*

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 statements of loss and comprehensive loss
For the three and nine months ended September 30, 2011 and 2010

	Three months ended September 30, 2011 *(unaudited)*	Three months ended September 30, 2010 *(unaudited)*	**Nine months ended September 30, 2011 *(unaudited)***	Nine months ended September 30, 2010 *(unaudited)*
	$	$	**$**	$
Revenues				
Petroleum and natural gas sales	**5,200,397**	1,504,357	**15,246,528**	4,484,213
Royalties	**(737,699)**	(126,689)	**(3,319,149)**	(461,840)
	4,462,698	1,377,668	**11,927,379**	4,022,373
Other Income	**74,417**	3,238	**197,030**	11,195
Revenues, net of royalties	**4,537,115**	1,380,906	**12,124,409**	4,033,568
Expenses				
Operating costs	**1,973,548**	804,415	**7,854,163**	2,210,699
Transportation	**189,274**	40,760	**489,269**	150,705
Exploration and evaluation *(Note 5)*	**9,361**	14,706	**378,415**	63,806
General and administrative	**1,301,718**	715,443	**3,669,059**	2,196,666
Finance costs *(Note 13)*	**112,179**	66,975	**336,891**	196,023
Stock-based compensation *(Note12c)*	**28,956**	876	**2,686,356**	735,491
Foreign exchange loss	**442**	1,333	**1,205**	1,218
Depletion, depreciation, and amortization	**2,316,834**	548,851	**6,208,380**	1,502,907
	5,932,312	2,193,359	**21,623,738**	7,057,515
Loss before the following	**(1,395,197)**	(812,453)	**(9,499,329)**	(3,023,947)
Loss on farmout *(Note 5)*	**-**	(406,882)	**-**	(406,882)
Deferred tax recovery *(Note 9)*	**-**	-	**1,046,500**	-
Net loss and comprehensive loss for the period	**(1,395,197)**	(1,219,335)	**(8,452,829)**	(3,430,829)
Deficit - beginning of the period	**(26,705,323)**	(21,520,273)	**(19,647,691)**	(19,308,779)
Deficit - end of the period	**(28,100,520)**	(22,739,608)	**(28,100,520)**	(22,739,608)
Net loss per weighted average share				
Basic and diluted *(Note 12(e))*	**$(0.01)**	$(0.02)	**$(0.06)**	$(0.05)
Weighted average shares outstanding	**139,009,068**	70,475,702	**138,820,415**	69,757,601

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
For the nine months ended September 30, 2011 and 2010

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
	$	$
	(unaudited)	*(unaudited)*
		(Note 18)
Share capital ***(Note 12)***		
Balance, beginning of period	**83,374,222**	24,913,168
Stock options exercised	**42,604**	37,500
Warrants exercised	**136,580**	1,968,160
Share issue costs	**(6,604)**	(103,481)
Balance, end of period	**83,546,802**	26,815,347
Contributed surplus ***(Note 12(c))***		
Balance, beginning of period	**3,767,042**	10,139,277
Stock-based compensation	**2,686,356**	735,491
Options and warrants exercised	**(47,935)**	(553,908)
Balance, end of period	**6,405,463**	10,320,860
Deficit		
Balance, beginning of period	**(19,647,691)**	(19,308,779)
Net loss	**(8,452,829)**	(3,430,829)
Balance, end of period	**(28,100,520)**	(22,739,608)
Total shareholders' equity	**61,851,745**	14,396,599

Strategic Oil & Gas Ltd.

Condensed interim consolidated statements of cash flows
For the three and nine months ended September 30, 2011 and 2010

	Three months ended September 30, 2011 *(unaudited)*	Three months ended September 30, 2010 *(unaudited)*	**Nine months ended September 30, 2011 *(unaudited)***	Nine months ended September 30, 2010 *(unaudited)*
	$	$	**$**	$
Operating activities:				
Net loss for the period	**(1,395,197)**	(1,219,335)	**(8,452,829)**	(3,430,829)
Non-cash items:				-
Depletion, depreciation, and amortization	**2,316,834**	548,851	**6,208,380**	1,502,907
Accretion of decommissioning liabilities	**50,691**	32,508	**156,752**	97,226
Exploration and evaluation *(Note 5)*	**9,361**	-	**378,415**	-
Loss on farmout *(Note 5)*	**-**	406,882	**-**	406,882
Deferred tax recovery	**-**	-	**(1,046,500)**	-
Stock-based compensation	**28,956**	876	**2,686,356**	735,491
Other	**173**	(2,391)	**(9,268)**	(16,504)
	1,010,818	(232,609)	**(78,694)**	(704,827)
Expenditures on decommissioning liabilities *(Note 11)*	**73,885**	(556)	**(2,223,049)**	(5,298)
Net changes in other assets and liabilities *(Note 14)*	**(3,975,370)**	236,273	**(4,793,550)**	(102,340)
	(2,890,667)	3,108	**(7,095,293)**	(812,465)
Financing activities:				
Issue of common shares	**-**	727,500	**-**	1,451,753
Exercise of warrants and options	**-**	-	**131,249**	-
Share issuance costs	**(400)**	(95,248)	**(6,604)**	(103,482)
Repayments against bank loan	**-**	(1,500,000)	**-**	(1,500,000)
	(400)	(867,748)	**124,645**	(151,729)
Investing activities:				
Expenditures – property, plant and equipment *(Note 6)*	**(14,687,073)**	(1,328,885)	**(25,315,953)**	(2,050,072)
Expenditures – exploration and evaluation assets *(Note 5)*	**(164,025)**	(1,041,442)	**(8,066,292)**	(3,918,668)
Purchase of short term investments	**-**	4,007,340	**-**	4,001,380
Changes in non-cash working capital *(Note 14)*	**11,927,677**	2,445,637	**12,340,911**	4,031,418
	(2,923,421)	4,082,650	**(21,041,334)**	2,064,058
Increase/(decrease) in cash and cash equivalents during the period	**(5,814,488)**	3,218,010	**(28,011,983)**	1,099,864
Cash and cash equivalents, beginning of the period	**8,777,269**	925,205	**30,974,764**	3,043,351
Cash and cash equivalents, end of the period	**2,962,781**	4,143,215	**2,962,781**	4,143,215

Supplemental cash flow information *(Note 14)*

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. 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) confirmed in February 2008 that the use of the International Financial Reporting Standards ("IFRS") is required for publicly accountable profit-oriented enterprises, and this is the first year the Corporation has prepared 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 19*. *Note 19* 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 and nine months ending September 30, 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 and should be read in conjunction with December 31, 2010 annual and March 31, 2011 quarterly consolidated financial statements. These condensed interim consolidated financial statements form part of the period covered by the first IFRS annual financial statements (December 31, 2011).

These condensed interim consolidated financial statements for the three and nine months ended September 30, 2011 and including 2010 comparative periods, were authorized for issue in accordance with the resolution of the Board of Directors on November 14, 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.

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

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

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

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) 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 is included in the following notes:

- Note 5 – 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 commodities, exchange rates, production costs or

3. Summary of significant accounting policies (continued)

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.

The Corporation assesses impairment on its non-financial assets when it has determined that a potential indicator of impairment exists. Impairment exists when the carrying value of a non-financial asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The value in use calculation is based on a discounted cash flow model. The cash flows do not include restructuring activities, if any, that the Corporation is not yet committed to or significant future investments that will enhance the non-financial assets performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

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

c) Future accounting pronouncements

The following pronouncements from the IASB will become effective for financial reporting periods beginning on or after January 1, 2013 and have not yet been adopted by the Corporation. All of these new or revised standards permit early adoption with transitional arrangements depending on the date of initial application.

- **IFRS 9**
  Financial Instruments addresses the classification and measurement of financial assets.

- **IFRS 10**
  Consolidated Financial Statements builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.

3. Summary of significant accounting policies (continued)

- **IFRS 11**
  Joint Arrangements establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled.

- **IFRS 12**
  Disclosure of Interest in Other Entities provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities.

- **IFRS 13**
  Fair Value Measurement defines fair value, requires disclosure about fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards.

- **IAS 1**
  In June 2011, the IASB issued IAS 1 Presentation of Items of OCI: Amendments to IAS 1 Presentation of Financial Statements. The amendments stipulate the presentation of net earnings and OCI and also require the Corporation to group items within OCI based on whether the items may be subsequently reclassified to profit or loss. Amendments to IAS 1 are effective for the Corporation beginning on January 1, 2012 with retrospective application and early adoption permitted.

- **IAS 28**
  Investments in Associate and Joint Ventures revised the existing standard and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

  The IASB also issued Presentation of Items of Other Comprehensive Income, an amendment to IAS 1 Financial Statement Presentation. The amendment addresses the presentation of other comprehensive income and requires the grouping of items within other comprehensive income that might eventually be reclassified to the profit and loss section of the statement of loss and comprehensive loss. The change becomes effective for financial years after July 1, 2012 with earlier adoption permitted.

The Corporation has not completed its evaluation of the effect of adopting these standards on its financial statements.

4. Business combinations

a) Steen River Oil & Gas Ltd.

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

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

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

4. Business combinations (cont'd)

Net assets acquired	
Working capital deficit	$ (1,710,392)
Undeveloped land	2,667,542
Developed oil and gas properties	30,564,878
Capital assets	44,444
Asset retirement obligations	(6,563,422)
	$ 25,003,050

Consideration	
Cash	$ 6,349,162
4,416,545 common shares valued at $1.06 per share	4,681,538
Assumption of debentures	3,425,225
	$ 14,455,925
Gain on acquisition of subsidiary	**$ 10,547,125**

Transaction costs of $256,491 were incurred in relation to the acquisition, and were recorded in general and administrative expenses. Tax pools of approximately $120 million were also acquired, but as the potential of future income from the acquisition is less likely than not to use the pools, no future tax asset was recognized.

If the business combination had been completed on January 1, 2010, the revenue and net loss for the three month period and nine month period ending September 30, 2010 would have been $2,849,156 and $5,992,420.

5. Exploration and evaluation assets

	September 30, 2011 **$**	December 31, 2010 $
Opening balance	**5,245,316**	-
E&E expenditures	**8,066,292**	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	**(378,415)**	(883,276)
Amortization	**(2,231,962)**	(439,792)
Closing balance	**10,701,231**	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 a loss on farmout of $406,882 (impairment of $3,097,546 net of additional E&E from recognition of farmout of $2,690,664) was recognized for a net transfer to PP&E of $2,626,600.

5. Exploration and evaluation assets (cont'd)

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 net loss.

For the three and nine months ended September 30, 2011, $9,361 and $378,415 respectively compared to $14,706 and $63,806 for the same period on 2010 was charged directly to exploration expense for unsuccessful projects.

6. Property, plant, and equipment

Cost	**September 30, 2011 $**	December 31, 2010 $
Opening balance	**64,937,169**	22,751,382
PP&E expenditures	**25,315,953**	5,411,063
Additional PP&E from recognition of farmout	**-**	450,646
Transfers from E&E (*Note 5*)	**-**	5,724,148
Acquisition of Steen River	**-**	30,609,333
Changes in decommissioning liability	**1,835,253**	(9,403)
Closing balance	**92,088,375**	64,937,169

Accumulated depreciation, depletion, and amortization	**September 30, 2011 $**	December 31, 2010 $
Opening balance	**16,273,488**	8,934,678
Depreciation, depletion, and amortization	**3,976,418**	2,137,254
Impairments recognized	**-**	3,532,885
Impairments transferred in from E&E (*Note 5*)	**-**	3,097,544
Recoveries of previous impairments	**-**	(1,326,307)
Reduction in accumulated depletion due to farmout	**-**	(102,566)
Closing balance	**20,249,906**	16,273,488

Net book value	**September 30, 2011 $**	December 31, 2010 $
Opening balance	**48,663,681**	13,816,704
Closing balance	**71,838,469**	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 $13,541,541 have been included in the depletable balance as at September 30, 2011. Depletion has been calculated using proved and probable reserves. The Corporation has recognized individual components in the aggregate value of $7,831,965 (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.

7. Goodwill

	As at September 30, 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 nine month period ended September 30, 2011 or for the year ended December 31, 2010.

8. Bank loan

In June 2011, the Corporation signed a Commitment Letter to increase its line of credit to $21 million under similar terms to the original revolving facility. At September 30, 2011, the Corporation had no outstanding amount owing (December 31, 2010 - $nil) against the $21 million revolving operating line of credit. There are letters of guarantee of $800,000 that bring the available funds down to $20.2 million. The revolving facility is repayable on demand with monthly interest-only payments, is renewable annually, and bears interest at the rate of 1.25% (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.

9. Deferred price premium on flow-through shares

	September 30, 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 10,407,500 common shares in 2010 on a flow-through basis with an estimated aggregate flow-through premium of $1,046,500. During the nine months ended September 30, 2011, the tax value of the flow-through issues was renounced to shareholders and $1,046,500 was recognized into earnings.

10. Debentures

Secured debentures of $3,425,225 were issued to the subordinated 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 30, 2011. The debentures are secured by a general security agreement over all assets of Steen River.

11. 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 September 30, 2011 were $14,500,402 (December 31, 2010 - $15,459,560). The estimated costs have been discounted at a risk free rate of 2.74% - 3.66% (December 31, 2010 – 3.51%) and an inflation rate of 2% at September 30, 2011 (December 31, 2010 – 2%). While the provision is based on the best estimates of future costs and economic lives of the facilities,

11. Decommissioning liabilities

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:

	September 30, 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	**1,097,908**	283,166
Decommissioning costs spent	**(2,223,049)**	(4,542)
Change in estimated future cash flows	**-**	(77,463)
Change in discount rate	**742,614**	287,963
Change in obligation due to satisfaction of farmout	**-**	(411,219)
Accretion	**156,752**	125,300
Balance end of the period	**11,072,745**	11,298,520

12. Share capital

a) Authorized

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

b) Issued and outstanding

	September 30, 2011		December 31, 2010	
	Number of shares	**Amount $**	Number of shares	Amount $
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	**453,702**	**179,184**	36,738,222	28,902,789
Share issue costs	**-**	**(6,604)**	-	(1,995,023)
Balance end of the period	**139,009,068**	**83,546,802**	138,555,366	83,374,222

c) Stock-based compensation

The Corporation has a stock option plan under which officers, directors, consultants 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.

The following table reconciles the changes to the Corporation's stock options for the nine months ended September 30, 2011:

	Number of options	**Average Exercise Price $**
Balance – December 31, 2010	**3,846,667**	**0.59**
Issued	3,160,000	1.10
Exercised	(83,334)	0.38
Expired	(200,000)	1.60
Balance – September 30, 2011	**6,723,333**	**$0.80**

12. Share capital (cont'd)

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.

In September, 2011, 35,000 common share options were issued and vested immediately. These options expire five years from the date of the issue. The fair value of the options were calculated using the Black-Scholes model using an expected volatility of 101.4%, interest rate of 1.4%, estimated forfeiture rate of 7.7%, expected life of 5 years, and no expected dividends resulting in $28,956 of stock based compensation for the quarter. Forfeiture rate is calculated based on historical trading prices.

The following table sets out the outstanding options as at September 30, 2011:

All stock options, issued and exercisable		
Number of Options	**Exercise Price**	**Weighted Average Life (yrs)**
660,001	$0.25	2.45
1,193,332	$0.50	2.87
1,275,000	$0.65	3.29
435,000	$0.75	2.45
3,160,000	$1.10	4.28
6,723,333	**$0.80**	**3.54**

d) Warrants

All 370,370 warrants were exercised at $0.27 for total proceeds of $100,000 during the period.

e) Weighted average shares

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Weighted average shares (basic and diluted)	**138,820,415**	69,757,601

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

f) Contributed surplus

As at September 30, 2011, the change in contributed surplus relates to the stock options issued and exercised in the period as described under Stock Based Compensation in Note 11(c) above.

13. Finance costs

	Nine months ended September 30, 2011 $	Nine months ended September 30, 2010 $
Interest expense – bank loan	**52,045**	98,797
Interest expense – debenture	**128,094**	-
Accretion of decommissioning liabilities	**156,752**	97,226
	336,891	196,023

14. Supplemental cash flow information

	September 30, 2011 $	September 30, 2010 $
Interest paid	**180,139**	98,797
Taxes paid	**-**	-
Total	**180,139**	98,797
Changes in non-cash working capital		
Trade and other receivables	**(1,301,798)**	(54,238)
Accounts payable and accrued liabilities	**8,834,620**	4,491,316
	7,547,360	4,437,078
Operating	**(4,793,550)**	(102,340)
Investing	**12,340,911**	4,539,418
	7,547,360	4,437,078

15. 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:

	September 30, 2011 $	December 31, 2010 $
Current assets	**8,128,310**	34,838,496
Accounts payable and accrued liabilities	**(14,961,652)**	(6,127,032)
Debentures	**(3,425,225)**	(3,425,225)
Net working capital (deficit)	**(10,258,567)**	25,286,239
Total line of credit *(Note 8)*	**20,248,708**	5,000,000
Loan balance at end of period	**-**	-
Unutilized line of credit	**20,248,708**	5,000,000
Net available funds	**9,990,141**	30,286,239

The Corporation is currently projecting its remaining 2011 capital program to be approximately $5 million, and expects the current available funds, line of credit, 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 certain working capital ratio. The Company is compliant with all covenants.

16. Financial Instruments

The Corporation's financial instruments consist of cash and cash equivalents, 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.

16. Financial Instruments (cont'd)

a) Market Risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Corporation's financial assets, liabilities and expected future cash flows include commodity price risk, interest rate risk and foreign exchange risk.

i) Commodity Price Risk
The Corporation's financial performance is closely linked to natural gas and crude oil prices. While the Corporation may employ the use of various financial instruments in the future to manage these price exposures, the Corporation is not currently using any such instruments. The Corporation may, in certain circumstances, enter into oil or natural gas hedging contracts to provide stability of future cash flows by fixing the price of future deliveries of saleable product.

As at September 30, 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:

	September 30, 2011 **$**	September 30, 2010 $
10% change in oil price	**967,202**	388,133
10% change in gas price	**187,947**	59,817

**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 September 30, 2011, if interest rates had increased by 1% with all other variables held constant, net income would have decreased by $nil (2010 – decrease $4,882) as no amounts were outstanding.

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 September 30, 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, including the debenture, mature in 2011. There was no amounts drawn on the credit facility at September 30, 2011 (December 31, 2010 - $nil).

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

16. Financial Instruments (cont'd)

production. The majority of the remaining accounts receivable are from joint venture partners which are collected between two and four months after the production month. In order to mitigate collection risk, the Corporation assesses the credit worthiness of customers by assessing the financial strength of the customers and by routinely monitoring credit risk exposures. Three customers represent 38% of the Corporation's accounts receivable at September 20, 2011. Amounts owing from these customers were received subsequent to quarter end.

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.

17. Transactions with Related Parties

Legal fees in the amount of $59,212 ($104,411 – September 30, 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 $8,221 ($6,880 – September 30, 2010) were incurred to a director for geophysical consulting services. Software charges of $90,000 ($nil – September 30, 2010) were charged to a company controlled by an officer. Accounts payable and accrued liabilities at September 30, 2011 include $19,926 ($71,822 – September 30, 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.

18. Commitments

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

Year ended	$
2011	118,149
2012	292,596
2013	263,213
	673,958

b) Pursuant to the issues of flow through shares in October and December 2010, the Corporation is committed to incur prior to December 31, 2011, a total of $11,448,250 on qualifying expenditures. As at September 30, 2011, $10,863,756 has been incurred toward this commitment.

19. First time adoption of IFRS

A. Transition to IFRS

These interim condensed Consolidated Financial Statements for the period ended September 30, 2011 represent the Corporation's first year 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:

19. First time adoption of IFRS (con't)

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.

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 September 30, 2010	**Notes**	**Previous GAAP $**	**Effect of transition to IFRS $**	**IFRS $**
Assets				
Current assets:				
Cash and cash equivalents		4,143,215	-	4,143,215
Short-term investments		-	-	-
Trade and other receivables		855,831	508,000	1,363,831
		4,999,046	508,000	5,507,046
Property, plant, and equipment, net	19(ii)	22,492,771	(4,812,578)	17,680,193
E&E assets	19(ii)	-	886,011	886,011
Goodwill		643,357	-	643,357
		28,135,174	(3,418,567)	24,716,607
Liabilities and Shareholders' Equity				
Current Liabilities:				
Accounts payable and accrued liabilities		6,266,206	-	6,266,206
Bank loan		-	-	-
		6,266,206		6,266,206
Decommissioning liabilities	19(iii)	2,514,023	1,539,779	4,053,802
		8,780,229	1,539,779	10,320,008
Shareholders' Equity	19(i)	19,354,945	(4,958,346)	14,396,599
		28,135,174	(3,418,567)	24,716,607

19. 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	19(ii)	61,354,523	(12,690,842)	48,663,681
E&E assets	19(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 9*	-	1,046,500	1,046,500
		6,127,032	1,046,500	7,173,532
Debentures		3,425,225	-	3,425,225
Decommissioning liabilities	19(iii)	8,653,663	2,644,857	11,298,520
		18,205,920	3,691,357	21,897,277
Shareholders' Equity	19(i)	78,630,456	(11,136,883)	67,493,573
		96,836,376	(7,445,526)	89,390,850

19. First time adoption of IFRS (continued)

Interim consolidated statement of loss and comprehensive loss
For the nine months ended September 30, 2010

	Notes	Previous GAAP $	Effect of transition to IFRS $	IFRS $
Revenues				
Petroleum and natural gas sales		4,484,213	-	4,484,213
Royalties		(461,840)	-	(461,840)
		4,022,373	-	4,022,373
Other income		11,195	-	11,195
Revenues, net of royalties		4,033,568	-	4,033,568
Expenses				
Operating costs	19D(ii),(iii)	2,215,090	(4,391)	2,210,699
Transportation		150,705	-	150,705
Exploration		-	63,806	63,806
General and administrative	19D(i)	2,196,666	-	2,196,666
Stock based compensation	19D(iii)	736,755	(1,264)	735,491
Finance costs		214,176	(18,153)	196,023
Foreign exchange gain	19D(ii)	1,218	-	1,218
Depletion, depreciation, and amortization		2,174,466	(671,559)	1,502,907
		7,689,076	(631,561)	7,057,515
Loss before the following		(3,655,508)	631,561	(3,023,947)
Loss on farmout		-	(406,882)	(406,882)
Deferred income tax recovery	19D(i)	746,913	(746,913)	-
Net loss and comprehensive loss for the period		(2,908,595)	(522,234)	(3,430,829)
Deficit - beginning of the period	19D(i)	(13,602,185)	(5,706,594)	(19,308,779)
Deficit - end of the period		(16,510,780)	(6,228,823)	(22,739,608)

19. First time adoption of IFRS (continued)

Interim consolidated statement of loss and comprehensive loss
For the three months ended September 30, 2010

	Notes	Previous GAAP $	Effect of transition to IFRS $	IFRS $
Revenues				
Petroleum and natural gas sales		1,504,357	-	1,504,357
Royalties		(126,689)	-	(126,689)
		1,377,668	-	1,377,668
Other income		3,238	-	3,238
Revenues, net of royalties		1,380,906	-	1,380,906
Expenses				
Operating costs	19D(ii),(iii)	811,453	(56,138)	755,315
Transportation		40,760	-	40,760
Exploration		-	63,806	63,806
General and administrative	19D(i)	715,443	-	715,443
Stock based compensation	19D(iii)	2,584	(1,708)	876
Finance costs		74,628	(7,653)	66,975
Foreign exchange gain	18D(ii)	1,333	-	1,333
Depletion, depreciation, and amortization		832,951	(284,100)	548,851
		2,479,152	(285,793)	2,193,359
Loss before the following		(1,098,246)	285,793	(812,453)
Loss on farmout		-	(406,882)	(406,882)
Deferred income tax recovery	19D(i)	-	-	-
Net loss and comprehensive loss for the period		(1,098,246)	(121,089)	(1,219,335)
Deficit - beginning of the period	19D(i)	(15,412,534)	(6,107,739)	(21,520,273)
Deficit - end of the period		(16,510,780)	(6,228,828)	(22,739,608)

19. 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	19(ii),(iii)	3,031,594	98,608	3,130,202
Transportation		235,028	-	235,028
E&E	19D((i)b)	-	883,276	883,276
General and administrative		4,053,849	-	4,053,849
Stock based compensation	19D(iv)	743,219	(2,055)	741,164
Finance costs	19(iii)	263,874	(27,867)	236,007
Foreign exchange gain		2,911	-	2,911
Depletion, depreciation, and amortization	19(ii)	3,335,764	(758,718)	2,577,046
Impairment	19(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	19D(vi)	10,547,125	(1,258,600)	9,288,525
Gain on farmouts	19D(v)	-	146,334	146,334
Income (loss) before income taxes		4,567,655	(4,906,567)	(338,912)
Deferred income tax recovery	19(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	19(i)	(13,602,185)	(5,706,594)	(19,308,779)
Deficit - end of the period		(8,287,617)	(11,360,074)	(19,647,691)

19. First time adoption of IFRS (continued)

Consolidated statement of cash flows
For the nine months ended September 30, 2010

	Notes	Previous GAAP $	Effect of transition to IFRS $	IFRS $
Operating activities:				
Net loss for the period		(2,908,595)	(522,234)	(3,430,829)
Non-cash items:				
Depletion, depreciation, and amortization	19(ii)	2,174,466	(671,559)	1,502,907
Accretion of decommissioning liabilities	19(iii)	115,379	(18,153)	97,226
Loss on farmout		-	406,882	406,882
Future income taxes recovery	19(i)	(746,913)	746,913	-
Stock based compensation	19D(iv)	736,755	(1,264)	735,491
Other		(19,835)	(1,967)	(21,802)
		(648,743)	(61,382)	(710,125)
Net changes in other assets and liabilities		(102,340)	-	(102,340)
		(751,083)	(61,382)	(812,465)
Financing activities:				
Exercise of warrants and options		1,451,753	-	1,451,753
Share issuance costs		(103,481)	(1)	(103,482)
Advances from bank loan		(1,500,000)	-	(1,500.000)
		(151,728	(1)	(151,729)
Investing activities:				
Expenditures – property, plant, and equipment	19(ii)	(6,538,123)	4,488,051	(2,050,072)
Expenditures – E&E assets	19(ii)	-	(3,918,668)	(3,918,668)
Purchase of short term investments		4,001,380	-	4,001,380
Net changes in non-cash working capital items	*Note 14*	4,539,418	(508,000)	4,031,418
		2,002,675	61,383	2,064,058
Decrease in cash and cash equivalents during the period		(1,099,864)	-	(1,099,864)
Cash and cash equivalents, beginning of the period		3,043,351	-	3,043,351
Cash and cash equivalents, end of the period		4,143,215	-	4,143,215

19. 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	19D(iv)	(10,547,125)	1,258,600	(9,288,525)
Gain on farmouts	19D(v)	-	(146,334)	(146,334)
Depletion, depreciation, and amortization	19(ii)	3,335,764	(758,718)	2,577,046
Impairment	19(ii)	-	3,601,057	3,601,057
Accretion of decommissioning liabilities	19(iii)	153,167	(27,867)	125,300
Future income taxes recovery	19(i)	(746,913)	746,913	-
Stock based compensation	19(i)	743,219	(2,055)	741,164
Exploration expense	19(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	19(ii)	(13,746,636)	8,335,573	(5,411,063)
Expenditures – E&E assets	19(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

19. 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 September 30, 2010:

September 30, 2010	Note	Share capital	Contributed surplus	Deficit	Total
As reported under previous GAAP		25,541,029	10,324,696	(16,510,780)	19,354,945
Adjustments to January 1, 2010		527,406	(2,572)	(5,706,594)	(5,181,760)
Property, plant, and equipment and decommissioning liabilities expensed	19(ii)	-	-	(59,415)	(59,415)
Depletion, depreciation, and impairment of PP&E	19(ii)	-	-	765,642	765,642
Amortization of E&E assets	19(ii)	-	-	(94,083)	(4094,083)
Loss on Farmout	19D(v)			(406,882)	(406,882)
Decommissioning liability adjustment	19(iii)	-	-	18,153	18,153
Difference between future tax effect and deferred price premium on flow-through shares	19D(iii)	746,913	-	(746,913)	-
Stock-based compensation		-	(1,264)	1,264	-
Total changes		1,274,319	(3,836)	(6,228,828)	(4,958,346)
As reported under IFRS – September 30, 2010		**26,815,347**	**10,320,860**	**(22,739,608)**	**14,396,599**

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	19(ii)	-	-	(98,608)	(98,608)
Depletion, depreciation, and impairment of PP&E	19(ii)	-	-	(4,105,612)	(4,105,612)
E&E expense	19(ii)	-	-	(883,276)	(883,276)
Amortization and impairment of E&E assets	19(ii)	-	-	(1,834,273)	(1,834,273)
Adjustment of gain on acquisition of subsidiary	19D(vi)		-	(1,258,600)	(1,258,600)
Gain on farmout	19D(v)	-	-	3,243,880	3,243,880
Decommissioning liability adjustment	19(iii)	-	-	27,867	27,867
Deferred price premium on flow-through shares – current year issue	19D(iii)	(1,046,501)	-	-	(1,046,501)
Difference between future tax effect and deferred price premium on flow-through shares	19D(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**

19. First time adoption of IFRS (continued)

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 19D(i))***	**PP&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**

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 nine months ended September 30, 2010:

September 30, 2010 ***(Note 19D(i))***	**PP&E** **$**	**E&E** **$**
Balance as reported under previous GAAP	22,492,771	-
Adjustments from January 1, 2010	(4,096,916)	-
Transfers to E&E	-	-
PP&E expensed	(56,168)	-
Changes in asset retirement value	229,880	-
Changes in depletion, depreciation, amortization and impairment	428,030	(40,572)
Total changes for period	(6,372,400)	2,836,654
Balance as reported under IFRS	**17,680,193**	**886,011**

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 19D(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**

19. 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, and the nine months ended September 30, 2010:

Decommissioning liabilities *(Note 19D(ii))*	**Nine months ended September 30, 2010 $**	**Year ended December 31, 2010 $**
Decommissioning liabilities as reported under previous GAAP	2,514,023	8,653,663
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
Discount rate changes expensed	-	(3,057)
Adjustments to accretion	(18,153)	(27,867)
Total changes for period	-	2,644,857
Decommissioning liabilities reported under IFRS	**4,053,802**	**11,298,520**

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

19. First time adoption of IFRS (continued)

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 19C(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 19D(ii)*, and accumulated depletion, depreciation, and amortization is discussed below in *Note 19D(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.

19. 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) Loss 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 deemed 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.

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.

19. First time adoption of IFRS (continued)

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.

20. Subsequent Events

In November, 2011, 100,000 common share options were issued with an exercise price of $0.91 per share expiring in three years from the date of issue and exercisable immediately.