Management's Discussion and Analysis

Nine months ended September 30, 2012

November 19, 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 three and nine months ended September 30, 2012, and is to be read in conjunction with the interim condensed consolidated financial statements (the 'interim financial statements") and related notes for the periods ended September 30, 2012 and 2011.

Financial and Operational Highlights

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	**2012**	2011
Financial ($000's, except per share amounts)				
Petroleum and natural gas sales	**12,520**	5,200	**40,649**	15,246
Funds from (used in) operations *(1)*	**4,349**	1,011	**16,443**	(79)
Per share basic	**0.02**	0.01	**0.09**	-
Per share diluted	**0.02**	0.01	**0.09**	-
Net income (loss)	**(718)**	(1,395)	**1,129**	(8,453)
Per share basic	**(0.00)**	0.01	**0.01**	(0.06)
Per share diluted	**(0.00)**	0.01	**0.01**	(0.06)
Capital expenditures (excluding acquisitions)	**14,082**	14,851	**47,144**	33,382
Operating				
Production				
Crude oil Bbl per day)	**1,734**	595	**1,791**	564
Natural gas (Mcf per day)	**1,178**	1,916	**1,537**	1,799
Barrels of oil equivalent (Boe per day)	**1,930**	914	**2,047**	863
Average realized price				
Crude oil ($ per Bbl)	**76.84**	82.42	**80.92**	86.40
Natural gas ($ per Mcf)	**2.45**	3.91	**2.21**	3.98
Barrels of oil equivalent ($ per Boe)	**70.52**	61.83	**72.46**	64.69
Netback per Boe ($)				
Petroleum and natural gas sales	**70.52**	61.83	**72.46**	64.69
Royalties	**(10.69)**	(8.77)	**(10.96)**	(14.08)
Operating expenses	**(19.51)**	(23.46)	**(20.41)**	(33.33)
Transportation expenses	**(3.19)**	(2.25)	**(2.99)**	(2.08)
Operating Netback ($ per Boe)	**37.13**	27.35	**38.10**	15.20
Common Shares (000's)				
Common shares outstanding, end of period	**186,140**	139,009	**186,140**	139,009
Weighted average common shares (basic)	**186,884**	139,009	**186,996**	138,820
Weighted average common shares (diluted)	**186,884**	139,009	**187,761**	138,820

(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

- Production was 1,930 boe/d which is a 111% increase from the third quarter of 2011 despite service interruptions associated with forest fires, restrictions on Pembina's Peace Pipeline and a plant turnaround. Disruptions in service equated to approximately seventeen (17) days of downtime.
- Oil and natural gas liquid production increased 191% to 1,734 boe/d, compared to 595 boe/d in the third quarter of 2011.
- Oil and natural gas liquids production was 90% of total production in the third quarter of 2012 compared to 65% in the comparable period of 2011.
- Third quarter combined oil and natural gas sales was $12.520 million with cash flow from operations of $4.349 million ($0.02 per basic share) a 141% and 330% increase from the comparable period in 2011, respectively.
- The field netback was $37.13 per boe, a 36% increase from the comparable period in 2011.
- Eleven of the thirteen wells drilled during the nine months ended September 30, 2012, were tied in and on production. The remaining two will be on production in the fourth quarter of 2012. A minimum of four additional wells are planned for the last quarter of 2012.
- Total capital expenditures invested for the nine months ended September 30, 2012, $47.144 million representing 79% of its budgeted annual capital program focusing on drilling and infrastructure activities compared to $33.382 million in a comparable period.
- Effective September 24, 2012, the Corporation's current line of credit was increased to $48.5 million, ahead of the October 31, 2012 review date.

ADVISORIES

Basis of Presentation

The interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 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-IFRS 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 nine months ended September 30, 2012:

Period ended September 30	Three months		Nine months	
($000)	**2012**	2011	**2012**	2011
Net cash generated by operating activities	**$ 8,344**	$(2,890)	**$ 17,061**	$(7,095)
Abandonment Expenses	**130**	(74)	**130**	2,223
Changes in non-cash working capital	**(4,125)**	3,975	**(748)**	4,793
Funds from operations	**$ 4,349**	$ 1,011	**$ 16,443**	$ (79)

"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 November 19, 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

In July, forest fires forced the shut-in of production at the Larne field and at Steen River. Further, Pembina Pipeline Corporation initiated maintenance and upgrades commencing mid-August, 2012, which resulted in disruption in service and reduced pipeline capacity. The above unplanned disruptions and the scheduled plant turnaround at Strategic's Steen River facilities resulted in total disruptions in service that equated to seventeen (17) days in downtime. Routine production operations were conducted at the producing Taber and Conrad properties.

Corporate production averaged 1,930 boe/d in the third quarter of 2012 as compared to 2,583 boe/d in the second quarter of 2012. The reduction in the production is mainly attributed to the downtime at Steen River and shut-in gas production at Larne. Corporate production decline is estimated at 160 boe/d for the third quarter which equates to an annualized decline of approximately 25%.

Strategic continued the development of light oil opportunities at its Steen River core area. Strategic has drilled and completed thirteen (13) wells with a 100% success rate utilizing two drilling rigs in 2012. Drilling operations resumed in August 2012 at Steen River with two dedicated rigs. In the third quarter four (4) vertical wells were drilled. The 100/02-27 Sulphur Point vertical well is producing 40 boe/d and 102/03-27 Keg River vertical well is producing 260 boe/d. The remaining two vertical wells drilled in the third quarter will be on production in November.

OUTLOOK

At Steen River, continued success from the 2012 drilling programs continues to provide follow up drilling locations. Strategic will drill four (4) additional wells in the fourth quarter of 2012. The Corporation plans to drill a minimum of ten (10) wells in first quarter 2013. The 2013 drilling program is planned to extend and to explore the Keg River and Sulphur Point across the Steen Astrobleem from North Marlowe to West Marlowe testing several structural features. Additional work in the first quarter 2013 includes 3D seismic and infrastructure to expand Steen's production gathering system.

Plans for further activity are proceeding at Maxhamish. Strategic continues to work with its operating partner, in contemplation of additional evaluation and stimulation activity in the first quarter of 2013. At Amber, the Corporation continues its evaluation of several opportunities. The Corporation has deferred its Amber program to 2013.

The Corporation is on track with securing transporting oil by rail in fourth quarter 2012. Rail will help to minimize production downtime due to pipeline disruptions and will also provide an upside to pricing from exposure to WTI and Brent bench marks.

With three new wells coming on production in November, the Corporation is on target to meet its current 2012 exit rate guidance of 3,000 boe/d.

FINANCIAL REVIEW

During the three and nine months ended September 30, 2012, the Corporation generated funds flow from operations of $4.349 million and $16.443 million respectively. For the same period in 2011, the Corporation generated funds flow from operations of $1.011 million and negative funds from operations of $0.079 million respectively. The increase in funds flow from operations resulted from an increase in production volumes as well as efficiencies achieved in allocating fixed operating expenses over a higher production base.

During the three and nine months ended September 30, 2012, the Corporation realized an average of $70.52 per boe and $72.46 per boe respectively, before any financial instrument derivative contracts and other revenues.

Total oil and gas revenues for the three and nine months ended September 30, 2012 increased by 141% and 167% to $12.520 million and $40.649 million respectively.

RESULTS OF OPERATIONS

Production

Period ended September 30	Three months			Nine months		
	2012	2011	% Change	**2012**	2011	% Change
Oil, condensate, & ngls – bbls/d	**1,734**	595	191	**1,791**	564	218
Natural gas – mcf/d	**1,178**	1,916	(39)	**1,537**	1,799	(15)
Total daily production (boe/d)	**1,930**	914	111	**2,047**	863	137

Production for the three months ended September 30, 2012 averaged 1,930 boe/d consisting of 1,734 bbls crude oil plus ngls and 1,178 mcf of natural gas. Production during the quarter was 111 percent higher than the same period in 2011 of 914 boe/d, despite forest fires, Pembina's Peace Pipeline disruption and a plant turnaround. The increase in production as compared to the same period in 2011, is primarily due to the production growth coming from the successful 2011 and 2012 winter drilling program.

Year to date 2012 production averaged 2,047 boe/d consisting of 1,791 bbls crude oil plus ngls and 1,537 mcf of natural gas. Production for the first nine months of 2012 was 137 percent higher than the 863 boe/d recorded in the same period in 2011, despite forest fires, Pembina's Peace Pipeline disruption and a plant turnaround. The increase in production as compared to the same period in 2011, is primarily due to the production growth coming from the successful 2011 and 2012 winter drilling program.

Revenue

For the three months ended September 30, 2012 petroleum and natural gas revenues increased 141 percent to $12.520 million compared to $5.200 million for the same period in 2011 due to an increase of 111 percent in production volumes as well as an increase of 14 percent in realized average price to $70.52 per boe, before fair value of derivatives. Production revenue for the three months ended September 30, 2012 consisted of $12.255 million from crude oil and ngls sales, $0.265 million from natural gas sales.

For the nine months ended September 30, 2012, petroleum and natural gas revenues of $40.649 million were 167 percent higher than the same period in 2011 of $15.246 million as a result of 12 percent higher average realized price to $72.46 per boe, before fair value of derivatives and other revenues, and 137 percent increase in production.

Period ended September 30	Three months			Nine months		
($000)	**2012**	2011	% Change	**2012**	2011	% Change
Sales						
Oil, condensate, and ngls	**$ 12,255**	$4,510	172	**$ 39,717**	$13,292	199
Natural gas	**265**	690	(62)	**932**	1,954	(52)
	12,520	5,200	141	**40,649**	15,246	167
Change in fair value of derivative	**(215)**	-	100	**(215)**	-	100
Other Revenue	**19**	75	(75)	**91**	197	(54)
Total sales	**$ 12,324**	$5,275	134	**$ 40,525**	$15,443	162
Average prices *(Note 1)*						
Oil and ngls ($/bbl)	**76.84**	82.42	(7)	**80.92**	86.40	(6)
Natural gas ($/mcf)	**2.45**	3.91	(37)	**2.21**	3.98	(44)
Oil equivalent ($/boe)	**70.52**	61.83	14	**72.46**	64.69	12

Note (1) The average prices computation above excludes the change in fair value of the risk management contracts as well as other revenue.

Royalties

For the three months ended September 30, 2012, royalties increased 157 percent to $1.898 million from $0.737 million for the same period in 2011 largely attributed to 111 percent increase in production volumes and 14 percent increase in product pricing per boe. Royalties as a percentage of revenues and other revenues (excluding unrealized losses on financial instrument commodity contract) for the third quarter of

2012, increased to 15.2 percent when compared to 14.2 percent for the same period in 2011 due mainly to increased volume and increased prices.

For the nine months ended September 30, 2012, royalties increased to $6.147 million compared to $3.319 million for the same period in 2011. The average royalty rate was 15.1 percent compared to 21.8 percent due to higher production and the Alberta Royalty incentive program.

Period ended September 30	Three months		Nine months	
($000)	**2012**	2011	**2012**	2011
Crown royalties	**$ 1,577**	$ 622	**$ 5,101**	$2,923
Freehold royalties	**33**	35	**41**	63
Overriding royalties	**288**	80	**1,005**	333
Total royalties	**$ 1,898**	$ 737	**$ 6,147**	$3,319
Per boe	**$ 10.69**	$ 8.77	**$ 10.96**	$14.08
Percentage of crude oil & natural gas revenues	**15.2%**	14.2%	**15.1%**	21.8%

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 September 30	Three months		Nine months	
($000)	**2012**	2011	**2012**	2011
Operating costs	**$ 3,464**	$1,974	**$11,451**	$7,854
Transportation costs	**567**	189	**1,675**	489
	$ 4,031	$2,163	**$13,126**	$8,343
Per boe				
Operating costs	**$ 19.51**	$ 23.46	**$ 20.41**	$ 33.33
Transportation costs	**3.19**	2.25	**2.99**	2.08
	$ 22.70	$25.71	**$ 23.40**	$35.40

Total operating expenses for the three months ended September 30, 2012, increased by 86 percent to $4.031 million compared to $2.163 million for the same period in 2011. The increase was the result of higher production partially offset by a scheduled annual plant turnaround and seasonal workover costs. On a boe basis for the three months ended September 30, 2012 operating expenses were $22.70 per boe compared to $25.71 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 111 percent higher production base.

For the nine months ended September 30, 2012 operating expenses increased 57 percent to $13.126 million compared to $8.343 million for the same period in 2011 mainly due to higher production. On a boe basis, year-to-date operating expenses decreased 34 percent to $23.40 per boe compared to $35.40 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

Period ended September 30	Three months		Nine months	
	2012	2011	**2012**	2011
Per boe				
Revenues *(Note 1)*	**$ 70.52**	$ 61.83	**$ 72.46**	$ 64.69
Royalties	**(10.69)**	(8.77)	**(10.96)**	(14.08)
Operating costs	**(19.51)**	(23.46)	**(20.41)**	(33.33)

Transportation costs	**(3.19)**	(2.25)	**(2.99)**	(2.08)
Netback per boe	**$ 37.13**	$ 27.35	**$ 38.10**	$ 15.20

Note (1) The average prices computation above excludes the change in fair value of the risk management contracts as well as other revenue.

For the three and nine months ended September 30, 2012, the Corporation's netback increased to $37.13 per boe and $38.10 per boe respectively as compared to $27.35 per boe and $15.20 per boe for the same period in 2011. The year-to-date increase is attributed to an increase in production, an increase in commodity prices, reduced royalty rates on new wells and an increase in operating efficiencies compared to the same period in 2011.

General and administrative expenses

Period ended September 30	Three months		Nine months	
($000)	**2012**	2011	**2012**	2011
Wages and employee benefits	**$ 1,518**	$ 660	**$ 3,152**	$1,734
Professional fees	**159**	64	**375**	213
Consulting fees	**94**	202	**303**	668
Public reporting	**97**	47	**227**	230
Occupancy costs	**117**	126	**427**	367
Travel	**36**	47	**112**	170
Miscellaneous general and administrative	**230**	156	**396**	287
Total	**$ 2,251**	$1,302	**$ 4,992**	$3,669
Per boe	**$ 12.68**	$15.48	**$ 8.90**	$15.57

For the three months ended September 30, 2012, general and administrative expenses, net of overhead recoveries ("G&A") increased 73 percent to $2.251 million compared to $1.302 million for the same period in 2011. On a boe basis, G&A for the quarter ended September 30, 2012 was $12.68 per boe compared to $15.48 per boe for the same period on 2011. The increase in G&A in the third quarter of 2012 when compared to the same period in 2011 is primarily due to additional compensation incurred upon settlement of an executive management contract.

For the nine months ended September 30, 2012, G&A expenses of $4.992 million were 36 percent higher than the same period in 2011 of $3.669 million. On a boe basis, year-to-date G&A was $8.90 per boe which was lower than the same period in 2011 of $15.57 per boe. The decrease on a boe basis when compared to the same period in 2011 is due to higher production volumes achieved during the year.

Finance Expense

Period ended September 30	Three months		Nine months	
($000)	**2012**	2011	**2012**	2011
Interest expense	**$ 5**	$ 18	**$ 17**	$ 52
Interest expense – debenture	**-**	43	**-**	128
Accretion expense	**85**	51	**237**	157
Total	**$ 90**	$ 112	**$ 254**	$ 337
Per boe	**$ 0.51**	$ 1.33	**$ 0.45**	$ 1.43

Interest expense during the three months ended September 30, 2012 decreased 92 percent to $0.005 million compared to $0.061 million for the same period in 2011 while year-to-date interest expense decreased 91 percent to $0.017 million compared to $0.180 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 nine months ended September 30, 2012 was $0.085 million and $0.237 million respectively compared to $0.051 million and $0.157 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 nine months ended September 30, 2012, the Corporation recorded stock based compensation expenses of $0.015 million and $1.014 million compared to the $0.029 million and $2.687 million respectively in 2011. The Corporation issued 2,370,000 stock options in the nine months ended September 30, 2012 compared to 3,160,000 issued for the same period in 2011.

As at September 30, 2012, there are 8,023,333 options outstanding.

Depletion, depreciation and amortization

Period ended September 30	Three months		Nine months	
($000)	**2012**	2011	**2012**	2011
Depreciation, depletion, and amortization	**$ 4,757**	$2,317	**$16,108**	$6,208
Per boe	**$ 26.79**	$27.54	**$ 28.71**	$26.34

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. Amortization related to the surface lease rentals associated with exploratory assets are capitalized and amortized over the lease term of five years. Depletion, depreciation and amortization for the three and nine months ended September 30, 2012 was $4.757 million and $16.108 million respectively compared to $2.317 million and $6.208 million in 2011, largely due to the Corporation's 2012 drilling program as well as acquisition of additional undeveloped land. On a boe basis, the costs increased to $26.79 per boe and $28.71 per boe respectively compared to $27.54 per boe and $26.34 per boe respectively.

Capital Expenditures

Period ended September 30	Three months		Nine months	
($000)	**2012**	2011	**2012**	2011
Drilling and completions	**$10,995**	$13,397	**$33,479**	$24,293
Equipping and facilities	**1,642**	1,515	**11,053**	1,693
Other	**174**	87	**216**	107
	$12,811	$14,999	**$44,748**	$26,093
Drilling incentive credits	**-**	(312)	**-**	(777)
Total Property, plant and equipment	**$12,811**	$14,687	**$44,748**	$25,316
Land and seismic	**1,271**	164	**2,396**	8,066
Total exploration and evaluations	**$ 1,271**	$ 164	**$ 2,396**	$ 8,066
Total net capital expenditures	**$14,082**	$14,851	**$47,144**	$33,382

During the three months ended September 30, 2012, the Corporation invested $12.811 million on drilling activities compared to $14.687 million for the same period in 2011. The Corporation spent an additional $1.271 million on undeveloped land and seismic for the three months ended September 30, 2012 compared to $.164 million during the same period of 2011.

For the nine months ended September 30, 2012, the Corporation spent $44.748 million on drilling and infrastructure activities as compared to $25.316 million for the same period in 2011. Additionally, the Corporation spent $2.396 million on seismic and undeveloped land as compared to $8.066 million spent for the comparable period in 2011.

The Corporation has invested year-to-date $47.144 million representing 79 percent of its budgeted annual capital program of $60.0 million. The remainder of 2012 will be focused on drilling a minimum of three additional wells in the Steen River area.

SUMMARY OF QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results:

Quarter ended ($000's)	Sep-12	Jun-12	Mar-12	Dec-11	Sep-11	Jun-11	Mar-11	Dec-10
Petroleum and natural gas sales	**$ 12,520**	$ 16,924	$ 11,204	$ 8,606	$5,200	$5,432	$4,614	$1,640
Income (loss)	**(718)**	1,235	611	(16,194)	(1,395)	(2,167)	(4,891)	3,092
Income (loss) per share								
Basic	**0.00**	0.01	0.00	(0.11)	(0.01)	(0.02)	(0.04)	0.03
Diluted	**0.00**	0.01	0.00	(0.11)	(0.01)	(0.02)	(0.04)	0.03
Production boe/d	**1,930**	2,583	1,631	1,230	914	884	790	317
Average price/boe	**$ 70.52**	$ 72.00	$ 75.50	$ 76.03	$61.83	$67.54	$64.92	$56.21

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:

($000)	September 30, 2012	December 31, 2011
Current assets	**$ 8,519**	$ 37,443
Accounts payable and accrued liabilities *(Note 1)*	**(20,828)**	(17,908)
Net working capital surplus (deficit)	**$ (12,309)**	$ 19,535
Total line of credit	**$ 48,500**	$ 21,000
Authorized Letters of Guarantee	**(1,130)**	(800)
Unutilized line of credit	**47,370**	20,200
Net available funds	**$ 35,061**	$ 39,735

Note (1) including fair value derivative loss

On June 7, 2012 the Corporation signed a commitment letter to increase its available revolving operating line of credit from $21.0 million to $50.0 million. The increase is scheduled to occur in 3 steps: $38.0 million immediately, $44.0 million on October 31, 2012 and $50.0 million on January 31, 2013. Effective September 24, 2012, the revolving operating line of credit limit has been increased to $48.5 million, ahead of the October 31, 2012 review date.

At September 30, 2012, the Corporation had no outstanding amount owing (December 31, 2011 - $nil) against the $48.500 million facility. Available funds from the facility have been reduced by letters of guarantee in the amount of $1.130 million. The revolving facility is repayable on demand and bears interest at the rate of 1.00% over the prime lending rate (December 31, 2011 – 1.25%). The facility is secured by a general security over all present and acquired personal property of the Corporation, and a floating charge on all lands. The security agreement is registered in the provinces of Alberta and British Columbia. The Corporation is required to comply with a working capital financial covenant. As at September 30, 2012, the Corporation was in compliance 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

Outstanding common shares	Three months ended		Nine months ended	
Weighted average common shares	**September 30,**	September 30,	**September 30,**	September 30,

outstanding	**2012**	2011	**2012**	2011
Weighted average shares (basic)	**186,883,614**	139,009,068	**186,996,193**	138,820,415
Weighted average shares (diluted)	**186,883,614**	139,009,068	**187,761,460**	138,820,415

	Nine Months Ended	
Outstanding securities	**September 30, 2012**	September 30, 2011
- Common Shares	**186,140,268**	139,009,068
- Common Share Options	**8,023,333**	6,723,333

Pursuant to the Corporation's stock options plan, the Corporation in February 2012 issued 2,260,000 common share options which vested immediately. An additional 110,000 common share options were issued in July 2012, of which 10,000 vested immediately and the remaining 100,000 will vest over three years. These options expire five years from the date of issue. The Corporation recorded $1.014 million (September 30, 2011 - $2.687 million) of stock based compensation related to the issuance.

On August 16, 2012, the Corporation announced its intention to purchase its common shares from time to time in accordance with the normal course issuer bid procedures under Canadian securities laws.

Pursuant to the issuer bid, the Corporation may purchase for cancellation up to 9,355,000 of its common shares, representing 5% of the issued and outstanding common shares of the Corporation, during the 12-month period commencing August 20, 2012.

For the 9 months ending September 30, 2012, the Corporation repurchased and cancelled 958,800 common shares at a weighted average price of $0.78 per common share for a total of $0.750 million, including directly related expenses. Retained earnings were reduced by $0.118 million representing the excess of the purchase price of the common shares over their average carrying value.

TRANSACTIONS WITH RELATED PARTIES

During the three and nine months ended September 30, 2012, the Corporation recorded $0.08 million and $0.24 million, respectively, of legal fees to a law firm of which a director is a partner. ($0.06 million and $0.15 million, three and nine months ended September 30, 2011). Consulting fees in the amount of $0.02 million and $0.06 million were recorded for geological consulting performed by a former director during the three and nine months ended September 30, 2012. ($0.01 million and $0.02 million, three and nine months ended September 30, 2011). During the three and nine months ended September 30, 2012, the Corporation recorded $0.03 million and $0.09 million, respectively, of software charges to a Corporation controlled by an officer ($0.03 million and $0.09 million, three and nine months ended September 30, 2011).

Accounts payable and accrued liabilities at September 30, 2012 include $0.08 million (September 30, 2011 - $0.02 million) due to related parties. The above transactions were conducted in the normal course of operations and were recorded at exchange amounts which were agreed upon between the Corporation and the related parties.

COMMITMENTS

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

Year ended	($000's)
2012	$ 158
2013	601
2014	338
2015	311
2016	10
	$ 1,418

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 September 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 November 19, 2012 the Corporation had 186,140,268 common shares outstanding and 8,023,333 stock options outstanding under its stock-based compensation program.

ACCOUNTING POLICIES AND ESTIMATES

The interim condensed consolidated financial statements for the nine months ended September 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* of the December 31, 2011 audited consolidated financial statements. These interim financial statements contain disclosures that are supplemental to the Corporation's annual audited consolidated financial statements and include the following additional information:

a) Development and production assets

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

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

b) Financial instruments

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred substantively all the risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Corporation classifies its financial instruments in the following categories depending on the purpose for which the instrument were acquired:

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition, such as cash and cash equivalents. Financial instruments are designated at fair value through profit or loss if the Company makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management strategy. Upon initial recognition, any transaction costs attributable to the financial instruments are recognized through earnings when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in earnings.

Derivative financial instruments

The Company has entered into certain financial derivative contracts in order to reduce its exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus has not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded on the balance sheet at fair value. Attributable transaction costs are recognized in earnings when incurred. The estimated fair value of all derivative instruments is based on quoted market prices and/or third party market indications and forecasts.

Note 3 of the Corporation's annual 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 in the Corporation's Amended MD&A for the year ended December 31, 2011, with the exception of the following additional risk:

- **Commodity price risk**

  Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar.

In addition, the Corporation is also subject to other risks and uncertainties which are further 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.