Consolidated Financial Statements

For the years ended

December 31, 2011 and 2010

Management's Report

Management's Responsibility for Financial Reporting

The management of Strategic Oil & Gas Ltd. is responsible for the preparation of the consolidated financial statements. The accompanied consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and include certain estimates that reflect management's best estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects.

Management is responsible for the integrity of the consolidated financial statements. Management has developed and maintains an extensive system of internal accounting controls that provide reasonable assurance that all transactions are accurately recorded, that the consolidated financial statements realistically report the Corporation's operating and financial results and that the Corporation's assets are safeguarded from loss or unauthorized use. Management believes that this system of internal controls has operated effectively for the year ended December 31, 2011. The Corporation has effective disclosure controls and procedures to ensure timely and accurate disclosure of material information relating to the Corporation which complies with the requirements of Canadian securities legislation.

MNP LLP ("MNP"), an independent firm of chartered accountants, was appointed by a vote of shareholders at the Corporation's last annual meeting to audit the consolidated financial of the Corporation and to provide an independent professional opinion. MNP was appointed to hold such office until the next such annual meeting of the shareholders of the Corporation.

The Board of Directors, through its Audit Committee, has reviewed the financial statements including notes thereto with management and MNP. The members of the Audit Committee, has reviewed the financial statements including note thereto with management and MNP. The members of the Audit Committee are composed of independent directors the majority of whom are not employees of the Corporation. The Board of Directors has approved the information contained in the consolidated financial statements based on the recommendation of the Audit Committee.

"Signed"
Arn Schoch, CEO and Chairman

"Signed"
Shelina Hirji, VP Finance

March 29, 2012

To the Shareholders of Strategic Oil & Gas Ltd:

We have audited the accompanying consolidated financial statements of Strategic Oil & Gas Ltd. Inc. and its subsidiaries which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of comprehensive loss, statements of changes in shareholders' equity and statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes assessing the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Strategic Oil & Gas Ltd. and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

MNP LLP

MNP LLP
Calgary, Alberta

March 29, 2012
Chartered Accountants

MNP

Strategic Oil & Gas Ltd.

Consolidated statements of financial position

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
		(Note 23)	*(Note 23)*
Assets			
Current assets:			
Cash and cash equivalents *(Note 4)*	**31,808,486**	30,974,764	3,043,351
Short term investments	-	-	4,001,380
Trade and other receivables *(Note 5)*	**5,634,565**	3,863,732	801,594
	37,443,051	34,838,496	7,846,325
Property, plant, and equipment, net (*Note 8*)	**70,924,148**	48,663,681	13,816,704
Exploration and evaluation assets (*Note 7*)	**9,328,152**	5,245,316	-
Goodwill *(Note 9)*	-	643,357	643,357
	117,695,351	89,390,850	22,306,386
Liabilities			
Current Liabilities:			
Accounts payable and accrued liabilities	**17,908,179**	6,127,032	1,789,427
Bank loan *(Note 10*)	-	-	1,500,000
Deferred price premium on flow-through shares *(Note 11)*	**2,275,000**	1,046,500	-
Debentures *(Note 12)*	-	3,425,225	-
	20,183,179	10,598,757	3,289,427
Long Term Liabilities:			
Decommissioning liabilities *(Note 13)*	**12,522,996**	11,298,520	3,273,293
	32,706,175	21,897,277	6,562,720
Shareholders' Equity			
Share capital *(Note 14)*	122,973,059	83,374,222	24,913,168
Contributed surplus	6,310,271	3,767,042	10,139,277
Deficit	(44,294,154)	(19,647,691)	(19,308,779)
Total equity	**84,989,176**	67,493,573	15,743,666
	117,695,351	89,390,850	22,306,386

Commitments *(Note 22)*
Effects of adoption of IFRS *(Note 23)*
Subsequent event *(Note 24)*

Approved by the Board of Directors

Signed: *"Arn Schoch"* Signed: *"Rick Skeith"*

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

Strategic Oil & Gas Ltd.

Consolidated statements of loss and comprehensive loss

For the years ended	**December 31, 2011** **$**	December 31, 2010 $ *(Note 23)*
Revenues		
Petroleum and natural gas sales	**23,852,810**	6,124,134
Royalties	**(5,273,550)**	(510,906)
	18,579,260	5,613,228
Other Income	**198,138**	73,541
Revenues, net of royalties	**18,777,398**	5,686,769
Expenses		
Operating costs	**11,353,187**	3,130,202
Transportation	**757,736**	235,029
Exploration and evaluation expense *(Note 7)*	**1,284,981**	883,276
General and administrative	**5,705,691**	4,053,849
Finance costs *(Note 15)*	**439,391**	236,007
Stock-based compensation *(Note14d)*	**2,602,294**	741,164
Foreign exchange gains	**781**	2,911
Depletion, depreciation, and amortization	**9,382,695**	2,577,045
Impairment of Goodwill *(Note 9)*	**643,357**	-
Impairment of PP&E *(Note 7 and Note 8)*	**12,300,248**	3,601,057
	44,470,361	15,460,540
Operating Loss	**(25,692,963)**	(9,773,771)
Gain on acquisition of subsidiary *(Note 6)*	-	9,288,525
Gain on farm-out *(Note 23d(v))*	-	146,334
Deferred tax recovery *(Note 16)*	**1,046,500**	-
Net loss and comprehensive loss for the year	**(24,646,463)**	(338,912)
Net loss per weighted average share		
Basic and diluted *(Note 14(f))*	**(0.18)**	0.00
Weighted average shares outstanding	**140,161,040**	80,239,777

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

Strategic Oil & Gas Ltd.

Consolidated statements of changes in shareholders' equity

	Share capital $	Contributed surplus $	Deficit $	Total equity $
Balance January 1, 2010	**24,913,168**	**10,139,277**	**(19,308,779)**	**15,743,666**
Issue of shares	21,151,538	-	-	21,151,538
Issue of flow-through shares, net	10,401,750	-	-	10,401,750
Share issue costs	(1,995,023)	-	-	(1,995,023)
Stock options exercised	285,833	-	-	285,833
Stock based compensation	-	741,164	-	741,164
Warrants exercised	28,616,956	(7,113,399)	-	21,503,557
Net loss	-	-	(338,912)	(338,912)
Balance December 31, 2010	**83,374,222**	**3,767,042**	**(19,647,691)**	**67,493,573**

	Share capital $	Contributed surplus $	Deficit $	Total equity $
Balance January 1, 2011	**83,374,222**	**3,767,042**	**(19,647,691)**	**67,493,573**
Issue of shares	34,569,000	-	-	34,569,000
Issue of flow-through shares, net	7,735,000	-	-	7,735,000
Share issue costs	(2,918,927)	-	-	(2,918,927)
Stock options exercised	77,183	(22,483)	-	54,700
Stock based compensation	-	2,602,294	-	2,602,294
Warrants exercised	136,581	(36,582)	-	99,999
Net loss	-	-	(24,646,463)	(24,646,463)
Balance December 31, 2011	**122,973,059**	**6,310,271**	**(44,294,154)**	**84,989,176**

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

Strategic Oil & Gas Ltd.

Consolidated statements of cash flows

For the years ended	**December 31, 2011 $**	December 31, 2010 $
		(Note 23)
Operating activities:		
Net loss for the year	**(24,646,463)**	(338,912)
Non-cash items:		
Gain on acquisition of subsidiary	**-**	(9,288,525)
Gain on farmouts *(Note 23D(v))*	**-**	(146,334)
Depletion, depreciation, and amortization	**9,382,695**	2,577,046
Impairment of PP&E	**12,300,248**	3,601,057
Impairment of goodwill	**643,357**	-
Accretion of decommissioning liabilities	**200,880**	125,300
Stock-based compensation	**2,602,294**	741,164
Exploration expense	**1,284,981**	883,276
Deferred tax recovery	**(1,046,500)**	-
Non-cash reclamation expense	**43,086**	(3,047)
Non-cash lease inducement recovery	**(19,383)**	(19.383)
	745,195	(1,868,358)
Expenditures on decommissioning liabilities *(Note 13)*	**(2,300,383)**	(4,542)
Net changes in other assets and liabilities *(Note 18)*	**(2,998,086)**	(433,383)
	(4,553,274)	(2,306,283)
Financing activities:		
Issue of shares for cash *(Note 14)*	**44,579,000**	27,918,250
Exercise of warrants and options	**154,699**	21,789,390
Share issuance costs *(Note 14)*	**(2,918,927)**	(1,995,023)
Repayments against bank loan	**-**	(1,500,000)
Settlement of debentures	**(3,425,225)**	-
	38,389,547	46,212,617
Investing activities:		
Expenditures – property, plant and equipment *(Note 8)*	**(37,537,911)**	(5,411,063)
Expenditures – exploration and evaluation assets *(Note 7)*	**(8,492,425)**	(8,233,918)
Acquisition of subsidiary		(6,349,162)
Transaction costs paid on behalf of subsidiary		(1,137,893)
Redemption of short term investments		4,001,380
Changes in non-cash working capital *(Note 18)*	**13,027,785**	1,155,735
	(33,002,551)	(15,974,921)
Increase in cash and cash equivalents during the year	**833,722**	27,931,413
Cash and cash equivalents, beginning of the year	**30,974,764**	3,043,351
Cash and cash equivalents, end of the year	**31,808,486**	30,974,764

Supplemental cash flow information *(Note 18)*

The accompanying notes to the 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.

a) Reporting Entity

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

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

a) Statement of compliance

The transition from the previous Canadian Generally Accepted Accounting Principles ("GAAP"), under which the Corporation previously 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 23*. *Note 23* 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, and for the year ending December 31, 2010.

The consolidated financial statements represent the Corporation's initial presentation of its results and financial position under IFRS and were prepared using accounting policies that are compliant with these standards. In these financial statements, the term "old Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of March 29, 2012, the date they were approved and authorized for issuance by the Board of Directors ("the Board").

b) Basis of presentation

The financial statements have been prepared on the historical cost basis except for cash and cash equivalents and certain share-based payment transactions, which are measured at fair value. In addition, these consolidated financial statements have been prepared on an accrual basis of accounting, except for cash flow information.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, the Corporation's functional currency.

3. Summary of significant accounting policies

a) Basis of consolidation

i. 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. Control exists when the Corporation has the power to govern the financial and generating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are prepared using consistent accounting policies and for the same reporting period as the parent. All inter-company balances and transactions are eliminated on consolidation

ii. Jointly controlled assets

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) 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.

The following standards and interpretations have not been in effect as they will only be applied for the first time in future periods. They may result in consequential changes to the accounting policies and other note disclosures.

- **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.

- **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.

3. Summary of significant accounting policies (continued)

- **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 27**
  Separate Financial Statements – The IASB issued amendments to IAS 27 Separate Financial statements to coincide with the changes made in IFRS 10, but retains the current guidance for separate financial statements.

- **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.

- **IFRS 7**
  Financial Instruments: Disclosures – In 2011, IASB issued amendments to IFRS 7 Financial instruments: Disclosures relating to disclosure requirements for the offsetting of financial assets and liabilities when offsetting is permitted under IFRS. The disclosure amendments are required to be adopted retrospectively for periods beginning January 1, 2013.

- **IFRS 9**
  In November 2009, the IASB published IFRS 9, "Financial Instruments," which covers the classification and measurement of financial assets as part of its project to replace IAS 39, Financial Instruments: Recognition and Measurement." In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to a company's own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Corporation on January 1, 2015. Early adoption is permitted and the standard is required to be applied retrospectively.

The Corporation is currently evaluating the impact of adopting all of the newly issued and amended standards.

c) Financial instruments:

Financial instruments are recognized at fair value on initial recognition of the instrument. Financial assets and liabilities are not offset unless the Corporation has the legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. Subsequent measurement depends upon the classification of the financial instrument as one of:

- Fair value through profit or loss
- Loans and receivables
- Available for sale
- Held to maturity
- Other financial liabilities

3. Summary of significant accounting policies (continued)

Financial instruments at “fair value through profit or loss” are further classified as either:

- Held for trading, or
- Designated at fair value through profit or loss and are adjusted to the fair value at the reporting period with the changes recognized in earnings.

Financial instruments classified as “loans and receivables”, “held to maturity”, or “financial liabilities measured at amortized cost” are subsequently measured at amortized cost using the effective interest method of amortization.

Financial assets classified as “available for sale” are measured at fair value, with the changes in fair value recognized in other comprehensive income.

The Corporation’s financial assets and financial liabilities are classified and measured as follows:

Financial instrument per balance sheet	Classification	Subsequent measurement
Cash and cash equivalents	Fair value through profit or loss	Fair value
Short-term investments	Fair value through profit or loss	Fair value
Trade and other receivables	Loans and receivables	Amortized cost using effective interest method
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost using effective interest method
Bank loan	Other financial liabilities	Amortized cost using effective interest method
Debentures	Other financial liabilities	Amortized cost using effective interest method

d) Business combinations:

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of closing. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of earnings and comprehensive income. Transaction costs that the Corporation incurs in connection with a business combination are expensed as incurred.

e) Property, plant and equipment and exploration and evaluation assets:

Recognition and measurement

Exploration and evaluation expenditures:
Pre-license costs are recognized in the statement of comprehensive loss as incurred. Exploration and evaluation costs, including the costs of acquiring undeveloped land, geological and geophysical costs, sampling and appraisals, and related drilling costs are initially capitalized until the drilling of the well is complete and the results have been evaluated. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved or probable reserves are determined to exist. If proved and/or probable reserves are found, the accumulated costs are tested for impairment and the carrying value net of any impairment is transferred to property, plant and equipment. The cost of undeveloped land that expires or any impairment recognized during a period is charged as additional depletion and depreciation expense. Surface lease rentals associated with exploratory assets are capitalized and amortized over the lease term of five years. All other exploration and evaluation assets are not amortized.

3. Summary of significant accounting policies (continued)

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Development and production costs:
Items of property, plant and equipment, which include oil and natural gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. The cost of development and production assets includes: transfers from exploration and evaluation assets, which generally include the cost to drill the well and the cost of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the wells; facility costs; the cost of recognizing provisions for future restoration and decommissioning; property acquisitions; geological and geophysical costs; and directly attributable overheads.

Development and production assets are grouped into Cash Generating Units (“CGUs”) for impairment testing and depletion calculations.

When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in the statement of comprehensive loss.

Subsequent costs:
Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in operating expenses as incurred.

Depletion and depreciation:
The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Natural gas reserves and production are converted to equivalent units on the basis of 6 mcf=1 bbl, reflecting the approximate energy content.

Proved plus probable reserves are estimated annually by independent qualified reserve evaluators and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. The estimated useful lives for certain production assets for the current and comparative years are as follows:

Gas and oil infrastructure	Unit of Production
Development and production assets	Unit of Production
Corporate assets	Straight Line – 5 years
Components	Straight Line - 20 years
Surface rentals	Straight Line - 5 years

3. Summary of significant accounting policies (continued)

f) Goodwill:

The Corporation recognizes goodwill relating to corporate acquisitions when the total purchase price exceeds the fair value of the net identifiable assets and liabilities of the acquired companies. For the purposes of impairment testing, goodwill is allocated to the CGUs that benefited from the synergies of the respective business combinations and is tested for impairment in conjunction with the CGU on an annual basis. Goodwill is stated at cost less impairment and is not amortized. Goodwill is not deductible for income tax purposes.

g) Impairment:

i) Financial assets:
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in comprehensive loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

ii) Non-financial assets:
The carrying amounts of the Corporation's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment at the CGU level. If any such indication exists, then the carrying value of each CGU, including goodwill is compared to its recoverable amount. For goodwill and other intangible assets that have indefinite lives or that are not yet available for use an impairment test is completed each year. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves which are based on forecast prices and costs. Fair value less costs to sell is determined to be the amount for which the asset could be sold in an arm's length transaction.

E&E assets are allocated to related CGU's when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property, plant and equipment).

3. Summary of significant accounting policies (continued)

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in comprehensive loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

h) Provisions:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a risk free rate. Provisions are not recognized for future operating losses.

i) Decommissioning obligations:

The Corporation's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows resulting from revisions to estimated timing, or changes in discount rate are capitalized and amortized over the same period as the underlying asset. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent the provision was established.

i) Income tax:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.
Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Summary of significant accounting policies (continued)

j) Flow-through common shares:

Periodically, the Corporation finances a portion of its exploration and development activities through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes related to exploratory development activities are renounced to investors in accordance with tax legislation. Flow-through shares issued are recorded in share capital at the fair value of common shares on the date of issue. The premium received on issuing flow-through shares is initially recorded as a liability. As qualifying expenditures are incurred, the premium is reversed and a deferred income tax liability is recorded. The net amount is then recognized as deferred income tax expense.

k) Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net earnings (loss) for the period attributable to equity owners of the Corporation by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The Corporation's potentially dilutive common shares comprise stock options and warrants granted to employees and directors.

l) Finance income and expenses:

Finance expense comprises interest expense on borrowings, accretion of the discount on provisions and impairment losses recognized on financial assets.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in comprehensive loss using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Corporation's outstanding borrowings during the period.

Interest income is recognized as it accrues in comprehensive loss, using the effective interest method.

m) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are as follows:

Recoverability of asset carrying values

The recoverability of development and production asset carrying values are assessed at a CGU level. Determination of what constitutes a CGU is subject to management judgments. The asset composition of a CGU can directly impact the recoverability of the assets and goodwill included therein. The key estimates used in the determination of cash flows from oil and natural gas reserves include the following:

i) **Reserves**

Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

3. Summary of significant accounting policies (continued)

ii) **Oil and natural gas price**
Forward price estimates are used in the cash flow model. Commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, inventory levels, exchanges rates, weather, and economic and geopolitical factors.

iii) **Discount rate**
The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

iv) **Impairment**
The decision to transfer assets from exploration and evaluation to property, plant and equipment is based on management's assessment of technical feasibility and commercial viability and this is subject to management's judgment. The key assumptions used in the impairment tests are described in *Note 3(g).*

Depletion and depreciation
Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of total proved and probable petroleum and natural gas reserves and future development capital. By their nature, the estimates of reserves, including the estimates of future prices, costs and future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the consolidated financial statements in future periods could be material.

Decommissioning obligations
Amounts recorded for decommissioning obligations and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

Financial instruments
The estimated fair values of financial instruments resulting in financial assets and liabilities, by their very nature are subject to measurement uncertainty.

Share based compensation
Compensation costs recognized for share based compensation plans are subject to the estimation of what the ultimate payout will be using pricing models such as the Black-Scholes model which is based on significant assumptions such as volatility, dividend yield, forfeiture rate and expected term. Several compensation plans are also performance based and are subject to management's judgment as to whether or not performance criteria will be met.

Deferred taxes
Tax interpretations, regulations and legislation in the various jurisdictions in which the Corporation operates are subject to change. As such income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

4. Cash and cash equivalents

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Bank balances	**31,783,486**	30,974,764	3,043,351
Term deposits	**25,000**	-	-
Cash and cash equivalents	**31,808,486**	30,974,764	3,043,351

There are no restrictions or guarantees on any cash.

5. Trade and other receivables

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Accounts receivable and accruals	**5,150,404**	3,156,946	608,672
Prepaid expenses and deposits	**509,706**	706,786	192,922
	5,660,110	3,863,732	801,594
Provision for doubtful accounts	**(25,545)**	-	-
Trade and other receivables	**5,634,565**	3,863,732	801,594

The Corporation's exposure to credit risk is disclosed in *Note 20(c)*.

6. Business combinations

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 $9,288,525.

Steen River was acquired to gain access to the remaining 95% of the Corporation's 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:

Net assets acquired	
Working capital deficit	$ (1,710,379)
Undeveloped land	2,667,518
Developed oil and gas properties	30,564,889
Capital assets	44,444
Decommissioning liabilities	(7,822,022)
	$ 23,744,450
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	**$ 9,288,525**

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. No deferred tax assets have been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Corporation can utilise the benefits there from.

For the year ended December 31, 2010, Steen River contributed $51,315 of revenue and $94,858 of net loss. If the business combination had been completed on January 1, 2010, the revenue and net loss contributed by Steen River for the year ended December 31, 2010 would have been $2,849,156 and $5,992,420.

7. Exploration and evaluation assets

	December 31, 2011 **$**	December 31, 2010 $
Opening balance	**5,245,316**	-
E&E expenditures	**8,492,425**	8,233,918
Additional E&E from recognition of farmout	**-**	2,690,664
Acquisition of Steen River *(Note 6)*	**-**	2,667,518
Decommissioning asset 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	**(1,284,981)**	(883,276)
Amortization	**(3,124,608)**	(439,791)
Closing balance	**9,328,152**	5,245,316

During 2010, the Corporation acquired $2,667,518 of undeveloped land with the acquisition of Steen River *(Note 6)*. The Corporation recognized an impairment of $1,394,479 related to parcels of the acquired land that the Corporation does not intend to explore or develop. Additionally, $3,097,544 of impairment was recognized during the year ended December 31, 2010 as a result of a decrease in the estimated recoverable amount of certain E&E assets. For 2011, the expense relates to an impairment of $1,284,981 relating to acquisition, seismic and pre-licensing costs expended on land which is not intended to be developed in future.

8. Property, plant, and equipment

Cost	**December 31, 2011** **$**	December 31, 2010 $
Opening balance	**64,937,169**	22,751,382
Additions	**37,537,911**	5,411,063
Additional PP&E from recognition of farmout	**-**	450,646
Transfers from E&E (*Note 7*)	**-**	5,724,148
Acquisition of Steen River *(Note 6)*	**-**	30,609,333
Changes in decommissioning liability	**3,280,892**	(9,403)
Closing balance	**105,755,972**	64,937,169

Accumulated depreciation, depletion, and amortization	**December 31, 2011** **$**	December 31, 2010 $
Opening balance	**16,273,488**	8,934,678
Depreciation, depletion, and amortization	**6,258,087**	2,137,254
Impairments recognized	**12,300,248**	3,532,885
Impairments transferred from E&E (*Note 7*)	**-**	3,097,544
Recoveries of previous impairments	**-**	(1,326,307)
Reduction in accumulated depletion due to farmout	**-**	(102,566)
Closing balance	**34,831,823**	16,273,488

Net book value	**December 31, 2011** **$**	December 31, 2010 $
Opening balance	**48,663,681**	13,816,704
Closing balance	**70,924,148**	48,663,681

8. Property, plant, and equipment (continued)

All of the Corporation's development and production assets are located within Canada. The Corporation's bank loan is secured by a general security agreement including a floating charge on all lands.

Future capital costs of $27,603,255 (December 31, 2010 - $14,303,065, January 1, 2010 - $1,049,000) have been included in the depletable balance as at December 31, 2011. Depletion has been calculated using proved and probable reserves. The Corporation has recognized individual components that are depreciated and tested for impairment separately in the aggregate value of $8,233,908 (December 31, 2010 - $6,831,965, January 1, 2010 - $nil).

During the year ended December 31, 2011 the Corporation capitalized G&A in the amount of $619,009 (December 31, 2010-$70,336).

Impairment

Impairment tests were carried out at December 31, 2011 on each CGU and were based on value in use, using the following forward commodity price estimates:

	Natural Gas	**Crude Oil**	
	AECO Gas Price (Cdn$/mmbtu)	Edmonton Par Price (Cdn$/bbl)	West Texas Intermediate (Us$/bbl)
2012	3.49	97.96	97.00
2013	4.13	101.02	100.00
2014	4.59	101.02	100.00
2015	5.05	101.02	100.00
2016	5.51	101.02	100.00
2017	5.97	101.02	100.00
2018	6.21	102.40	101.35
2019	6.33	104.47	103.38
2020	6.46	106.58	105.45
2021	6.58	108.73	107.56
Thereafter	+2.0%/yr	+2.0%/yr	+2.0%/yr

The impairment tests were based on the net present value of cash flows from proved plus probable oil and natural gas reserves of each CGU at a discount rate of 10 percent. For the year ended December 31, 2011, the Corporation recorded an impairment charge of $12.3 million (December 31, 2010 - $3.6 million).

A one percent increase in the assumed discount rate would have resulted in an additional impairment of $3.6 million for the year ended December 31, 2011, while a five percent decrease in the forward commodity price estimate would result in an additional impairment of approximately $1.6 million.

9. Goodwill

	December 31, 2011 $	December 31, 2010 $
Carrying value, opening	**643,357**	643,357
Impairment	**(643,357)**	-
Carrying value, closing	**-**	643,357

Goodwill was assessed for impairment at December 31, 2011 using value in use of the group of CGU's that goodwill was allocated to. The after-tax cash flows used to determine the recoverable amounts of the CGU's were discounted using an estimated year-end weighted average cost of capital of 10%. At December 31, 2011, the aggregate carrying value exceeded the recoverable amount of the cash generating units; therefore impairment was recognized in the amount of $643,357.

10. 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 December 31, 2011, the Corporation had no outstanding amount owing (December 31, 2010 - $nil, January 1, 2010 - $1.5 million) against the $21 million revolving operating line of credit. There are letters of guarantee of $751,292 (2010 - $nil, January 1, 2010 - $nil) 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%, January 1, 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.

11. Deferred price premium on flow-through shares

	December 31, 2011 **$**	December 31, 2010 $
Balance, beginning of the year	**1,046,500**	-
Flow-through renunciation	**(1,046,500)**	-
Additional deferred price premiums on flow-through shares *(Note 14)*	**2,275,000**	1,046,500
Balance, end of the year	**2,275,000**	1,046,500

12. Debentures

On November 30, 2011 the Corporation repaid all of the outstanding secured debentures, which were assumed by Strategic upon acquisition of Steen River *(Note 6)*. The cash redemption amount was $3,425,225 (December 31, 2010 - $nil, January 1, 2010 - $nil), including accrued interest to the redemption date. The debentures bore interest at 5% per annum.

13. 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 December 31, 2011 were $20,751,943 (December 31, 2010 - $15,459,560, January 1, 2010 - $12,885,000). The estimated costs have been discounted at risk free rates ranging from 2.50% to 3.66% (December 31, 2010 – 3.25% to 3.66%, January 1, 2010 – 4.08 %) and an inflation rate of 2% (December 31, 2010 – 2%, January 1, 2010 – 2%). While the provision is based on the best estimates of future costs and economic lives of the facilities, there is uncertainty regarding the amount and timing of incurring these costs that are not always within management's control.

The following table reconciles the Corporation's decommissioning liabilities:

	December 31, 2011 **$**	December 31, 2010 $
Balance, beginning of the year	**11,298,520**	3,273,293
Acquisition of Steen River (Note 6)	**-**	7,822,022
Liabilities incurred	**1,131,668**	283,166
Liabilities settled	**(2,300,383)**	(4,542)
Change in estimated future cash flows	**1,278,767**	(77,463)
Change in discount rate	**913,544**	287,963
Change in obligation due to satisfaction of farmout	**-**	(411,219)
Accretion	**200,880**	125,300
Balance, end of the year	**12,522,996**	11,298,520

14. Share capital

a) Authorized

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

b) Issued and outstanding

	December 31, 2011		December 31, 2010	
	Number of shares	**Amount $**	Number of shares	Amount $
Balance beginning of the year	**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
Flow-through shares issued, net of premium	**9,100,000**	**7,735,000**	10,407,500	10,401,750
Private placements	**38,410,000**	**34,569,000**	18,300,000	16,470,000
Exercise of warrants and options	**496,702**	**213,764**	36,738,222	28,902,789
Share issue costs	**-**	**(2,918,927)**	-	(1,995,023)
Balance end of the year	**186,562,068**	**122,973,059**	138,555,366	83,374,222

In December 2011, the Corporation completed a bought deal financing, resulting in the issuance of 38,410,000 common shares at a price of $0.90 per common share and 9,100,000 flow-through shares at $1.10 per share for total gross proceeds of $42.3 million (share issue costs of $2.9 million). Included in the 38,410,000 shares issued are 2,510,000 common shares ($2.3 million) that were issued on the exercise in full of the underwriters' over-allotment option. As at December 31, 2011 the Corporation is committed to spending $10.0 million on qualified exploration and development expenditures by December 31, 2012 to meet the flow through commitment.

In December 2010, the Corporation issued 5,175,000 flow-through shares at $1.10 per share for total gross proceeds of $5.7 million. As at December 31, 2011, the Corporation had met its obligation for qualified expenditures related to this issuance.

In October 2010, the Corporation completed a bought deal financing, resulting in the issuance of 18,300,000 common shares at a price of $0.90 per common share and 5,232,500 flow-through common shares at $1.10 per common share for total gross proceeds of $22.2 million. As at December 31, 2011, the Corporation had met its obligation for qualified expenditures related to this issuance.

c) Shares in escrow

Upon the acquisition of ZinMac in 2009, shares remaining in escrow at December 31, 2011 are detailed below:

	Number of options
Balance – January 1, 2010	**2,250,000**
Shares released – March 10, 2011	(750,000)
Shares released – September 10, 2011	(750,000)
Shares remaining in escrow – December 31, 2011	**750,000**

In March 10, 2012, the remaining 750,000 shares were released from escrow.

d) 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 number and weighted average exercise price of stock options are as follows:

14. Share capital (continued)

	Number of options	Weighted Average Exercise Price $
Balance – January 1, 2010	**3,355,000**	**0.53**
Issued	1,275,000	0.65
Exercised	(733,333)	0.39
Expired	(50,000)	0.75
Balance – January 1, 2011	**3,846,667**	**0.59**
Issued	3,260,000	1.09
Exercised	(126,334)	0.43
Expired	(200,000)	1.60
Balance – December 31, 2011	**6,780,333**	**0.81**

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

Assumptions	**December 31, 2011**	December 31, 2010	January 1, 2010
Risk free interest rate (%)	**2.60**	2.70	2.50
Expected life (years)	**5.00**	5.00	5.00
Expected volatility (%)	**106.90**	114.30	117.50
Expected dividend yield (%)	**0.00**	0.00	0.00
Forfeiture rate (%)	**8.15**	3.99	2.45
Weighted average fair value of options granted ($)	**0.84**	0.55	0.48

Forfeiture rate is calculated based on historical forfeiture rates.

The weighted average share price at the date of exercise for share options exercised in 2011 was $0.95 (2010 - $0.57)

Stock- based compensation cost of $2,602,294 was expensed during 2011 (2010 - $741,164).

The following table sets out the outstanding options as at December 31, 2011:

All stock options, issued and exercisable		
Number of Options	**Weighted Average Exercise Price**	**Weighted Average Life (yrs)**
650,000	$0.25	2.19
1,183,334	$0.50	2.62
1,262,000	$0.65	2.98
424,999	$0.75	2.19
3,260,000	$1.09	3.96
6,780,333	**$0.81**	**3.26**

e) Warrants

The following table reconciles the changes to the Corporation's warrants for the year ended December 31, 2010:

Opening balance – January 1, 2010	**31,428,858**	**$0.60**
Broker warrants issued	2,473,200	$0.60
Exercised	(33,531,688)	$0.61
Closing balance – December 31, 2010	**370,370**	**$0.27**

14. Share capital (continued)

All 370,370 warrants were exercised during the year ended December 31, 2011 at $0.27 for total proceeds of $100,000 during the year.

f) Basic net loss

Basic and diluted net loss per share was calculated as follows:

	December 31, 2011	December 31, 2010
Net loss for the year	**(24,646,463)**	(338,912)
Weighted average shares	**140,161,040**	80,239,777
Net loss per share	**(0.18)**	(0.00)

The outstanding options and warrants were not included in the diluted per share calculation for the year ended December 31, 2011 and 2010 as they were determined to be antidilutive.

15. Finance costs

	2011 **$**	2010 $
Interest expense – bank loan	**81,795**	110,707
Interest expense – debenture	**156,716**	-
Accretion of decommissioning liabilities	**200,880**	125,300
	439,391	236,007

16. Income taxes

The following table reconciles the expected income tax expense (recovery) at the Canadian federal and provincial statutory income tax rates to the amounts recognized in the consolidated statements of income (loss), comprehensive income (loss), and deficit for the years ended December 31, 2011 and 2010.

	2011 **$**	2010 $
Loss before income taxes	**(25,692,963)**	(338,912)
Statutory income tax rates	**26.50%**	30.29%
Expected income tax recovery	**(6,808,159)**	(102,655)
Non-deductible expenses	**8,102**	3,035
Non-taxable gain on farmouts	**-**	(41,113)
Non capital losses expiring in the year	**-**	8,507
Impairment of goodwill	**170,490**	-
Share issuance costs	**(753,388)**	(534,446)
Changes in tax rates	**360,742**	1,140,503
Tax effect of flow-through shares	**1,823,686**	-
Change in estimate of acquired tax pools	**(16,617,935)**	
Change in deferred tax benefits realized	**20,080,354**	(682,045)
Stock-based compensation	**689,608**	208,234
Income tax (recovery) expense	**(1,046,500)**	-

Details of deferred income tax assets (liabilities) are as follows:

16. Income taxes (continued)

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Deferred income tax assets (liabilities)			
Non-capital loss carry forwards	**32,555,276**	16,143,821	1,863,747
Share issuance costs	**1,130,436**	794,978	593,727
Oil and gas properties - US	**1,807,350**	1,810,207	1,810,615
Oil and gas properties	**3,836,212**	6,668,089	(365,488)
Decommissioning liabilities	**3,132,619**	2,826,405	833,439
Debt issuance costs	**-**	-	-
Other	**269,820**	277,616	23,547
Special shares	**-**	(5,867,935)	-
Total gross deferred income tax assets	**42,733,713**	22,653,181	4,759,587
Deferred tax benefits not recognized	**(42,733,713)**	(22,653,181)	(4,759,587)
Net deferred tax asset (liabilities)	**-**	-	-

At this stage of the Corporation's development, it cannot be reasonably estimated at this time that there is future taxable profits, so no deferred income tax assets were recognized.

As at December 31, 2011, the Corporation has non-capital losses of approximately $130,229,098 (2010 - $107,575,283) which may be carried forward to apply against future years' taxable income for Canadian tax purposes, subject to final determination by taxation authorities and expiring as follows:

	2011 $	2010 $
2014	**90,071**	90,071
2015	**295,664**	295,664
2026	**33,007,071**	32,683,108
2027	**27,676,126**	27,329,273
2028	**23,497,103**	24,043,088
2029	**17,042,107**	17,144,449
2030	**5,939,098**	5,989,630
2031	**22,681,858**	-
	130,229,098	107,575,283

17. Supplemental disclosure

Income statement presentation

Strategic's consolidated statement of loss and comprehensive loss is prepared primarily by nature of expense, with the exception of employee compensation costs which are included in both operating and general and administrative expenses.

The following table details the amount of total employee compensation costs included in the operating and general and administrative expense line items in the consolidated statement of loss and comprehensive loss.

	2011	2010
Operating	**613,068**	-
General and administrative	**3,015,546**	1,702,706
Total employee compensation costs	**3,542,498**	1,702,706

18. Supplemental cash flow information

	December 31, 2011 **$**	December 31, 2010 $
Interest paid	**238,511**	110,707
Taxes paid	**-**	-
Total	**238,511**	110,707

Changes in non-cash working capital		
Trade and other receivables	**(1,770,833)**	700,972
Accounts payable and accrued liabilities *(Note 1)*	**11 781 147**	(1,423,324)
	10,010,314	722,352
Operating	**(2,998,086)**	(433,383)
Investing	**13,027,785**	1,155,735
	10,029,699	722,352

Note 1: included in the accounts payable and accrued liabilities is $19,383 (2010-$19,383) of non-cash lease inducement.

19. 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.

In order to maintain or adjust the capital structure, the Corporation may issue new common shares, issue new 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:

	December 31, 2011 **$**	December 31, 2010 $	January 1, 2010 $
Current assets	**37,443,051**	34,838,496	7,846,325
Accounts payable and accrued liabilities	**(17,908 179)**	(6,127,032)	(1,789,427)
Bank Loan	**-**	-	(1,500,000)
Debentures	**-**	(3,425,225)	-
Net working capital (deficit)	**19,534,872**	25,286,239	4,556,898
Total line of credit *(Note 10)*	**21,000,000**	5,000,000	5,000,000
Amount drawn	**-**	-	(1,500,000)
Letters of credit	**(800,000)**	-	-
Unutilized line of credit	**20,200,000**	5,000,000	3,500,000
Net available funds	**39,734,872**	30,286,239	8,056,898

The Corporation is currently projecting its remaining 2012 capital program to be approximately $60 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 minimum working capital ratio. The Corporation is compliant with all covenants.

20. Financial Instruments

The carrying value of cash and cash equivalents, trade and other receivables, bank loan and accounts payable and accrued liabilities included in the consolidated statement of financial position to approximate fair value due to the short term nature of those instruments.

The Corporation has classified its financial instrument fair values based on the required three level hierarchy:

Level 1
Level 1 fair value measurements are based on unadjusted quoted market prices. Cash and cash equivalents are measured at Level 1.

Level 2
Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.

Level 3
Level 3 fair value measurements are valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methods.

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.

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. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

i) 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 oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also world economic events that dictate the levels of supply and demand. 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 December 31, 2011 and December 31, 2010, the Corporation had no hedging contracts. The following table provides an analysis of the Corporation's cash flow sensitivity to commodity price changes:

	December 31, 2011	December 31, 2010
	$	$
10% change in oil price	**1,569,409**	**487,157**
10% change in gas price	**239,993**	**73,989**

**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.

20. Financial Instruments (continued)

ii) Interest Rate Risk (continued)

As at December 31,2011, if interest rates had increased by 1% with all other variables held constant, net income would have decreased by $nil (2010 – $nil) as no amounts were outstanding.

iii) Foreign exchange risk

Prices for oil are determined in global markets and generally denominated in United States dollars. Natural gas and oil prices obtained by the Corporation are influenced by both US and Canadian demand and the corresponding North American supply, and recently, by imports of liquefied natural gas. The exchange rate effect cannot be quantified but generally an increase in the value of the $CDN as compared to the $US will reduce the prices received by the Corporation for its petroleum and natural gas sales. As at December 31, 2011 and 2010, the Corporation had no contracts in place to reduce the foreign exchange risk.

b) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

Typically the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. To achieve this objective, the Corporation prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Corporation utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditure. The Corporation also attempts to match its payment cycle with collection of oil and natural gas revenue on the 25th of each month. In addition, the Corporation maintains a $21 million credit facility to provide capital when needed of which $20.2 million net of letters of credit line was available at the end of the 2011.

All of the Corporation's liabilities matured in 2011 as the Corporation's accounts payable were due on demand. There was no loan balance at December 31, 2011. (December 31, 2010 - $nil, January 1, 2010 - $1.5 million), so minimal additional liquidity risk.

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 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.

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.

The Corporation's most significant customer, a Canadian oil and natural gas marketer, accounts for 54% of the trade receivables at December 31, 2011 (December 31, 2010: 23%, January 1, 2010: 58%).

As at December 31, 2011 and 2010, the Corporation's trade and other receivables are aged as follows:

20. Financial Instruments (continued)

	2011	2010
	$	$
Current (less than 90 days)	$ **3,598,234**	$ 2,034,407
Past due (more than 90 days)	**1,552,170**	1,122,539
Total	$ **5,150,404**	$ 3,156,946

At December 31, 2011, the allowance for doubtful accounts was $25,545 (2010 - $nil).

21. Transactions with Related Parties

Legal fees in the amount of $296,648 (December 31, 2010 - $477,142) 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 $33,325 (December 31, 2010 - $30,755) were incurred to a director for geophysical consulting services. Software charges of $93,000 (December 31, 2010 - $123,000) were charged to a company controlled by an officer. Accounts payable and accrued liabilities at December 31, 2011 include $150,707 (December 31, 2010 - $307,198, January 1, 2010 - $20,843) 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.

Transactions with key management personnel

The Corporation considers its executives to be key management personnel.

Key management personnel compensation is comprise of the following:

	2011	2010
	$	$
Salaries and wages	**1,094,667**	915,000
Short-term employee benefits	**710,995**	429,088
Termination benefits	**151,000**	-
Share-based payments	**1,975,669**	450,508
	3,932,331	1,794,596

22. Commitments

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

Year ended	$
2012	292,596
2013	263,213
	555,809

a) Pursuant to the issue of flow-through shares in December 2011, the Corporation is committed to incur a total of $10,010,000 on qualifying expenditures prior to December 31, 2012.

23. First time adoption of IFRS

A. Transition to IFRS

These Consolidated Financial Statements for the year ended December 31, 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.

23. First time adoption of IFRS (continued)

A. Transition to IFRS (continued)

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:

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 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 January 1, 2010

	Notes	Previous GAAP $	Effect of transition to IFRS $	IFRS $
Assets				
Current assets:				
Cash and cash equivalents		3,043,351	-	3,043,351
Short-term investments		4,001,380	-	4,001,380
Trade and other receivables		801,594	-	801,594
		7,846,325	-	7,846,325
Property, plant, and equipment, net	23(ii)	17,913,620	(4,096,916)	13,816,704
Goodwill		643,357	-	643,357
		26,403,302	(4,096,916)	22,306,386
Liabilities and Shareholders' Equity				
Current Liabilities:				
Accounts payable and accrued liabilities		1,789,427	-	1,789,427
Bank loan		1,500,000	-	1,500,000
		3,289,427		3,289,427
Decommissioning liabilities	23(iii)	2,188,449	1,084,844	3,273,293
		5,477,876	1,084,844	6,562,720
Shareholders' Equity	23(i)	20,925,426	(5,181,760)	15,743,666
		26,403,302	(4,096,916)	22,306,386

23. 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	23C(ii)	61,354,523	(12,690,842)	48,663,681
E&E assets	23C(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	23D(iii)		1,046,500	1,046,500
Debentures		3,425,225	-	3,425,225
		9,552,257	1,046,500	10,598,757
Decommissioning liabilities	23C(iii)	8,653,663	2,644,857	11,298,520
		18,205,920	3,691,357	21,897,277
Shareholders' Equity	23C(i)	78,630,456	(11,136,883)	67,493,573
		96,836,376	(7,445,526)	89,390,850

23. 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	23C(ii)(iii)	3,031,594	98,608	3,130,202
Transportation		235,028	-	235,028
E&E	23D((i)a)	-	883,276	883,276
General and administrative		4,053,849	-	4,053,849
Stock based compensation	23D(iv)	743,219	(2,055)	741,164
Finance costs	23C(iii)	263,874	(27,867)	236,007
Foreign exchange gain		2,911	-	2,911
Depletion, depreciation, and amortization	23C(ii)	3,335,764	(758,718)	2,577,046
Impairment	23D(i)(a)	-	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	23D(vi)	10,547,125	(1,258,600)	9,288,525
Gain on farmouts	23D(v)	-	146,334	146,334
Income (loss) before income taxes		4,567,655	(4,906,567)	(338,912)
Deferred income tax recovery	23(i)	746,913	(746,913)	-
Net income and comprehensive income for the year		5,314,568	(5,653,480)	(338,912)
Deficit - beginning of the year	23(i)	(13,602,185)	(5,706,594)	(19,308,779)
Deficit - end of the year		(8,287,617)	(11,360,074)	(19,647,691)

23. 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	23D(vi)	(10,547,125)	1,258,600	(9,288,525)
Gain on farm outs	23D(v)	-	(146,334)	(146,334)
Depletion, depreciation, and amortization	23(ii)	3,335,764	(758,718)	2,577,046
Impairment	23D(i)(d)	-	3,601,057	3,601,057
Accretion of decommissioning liabilities	23C(iii)	153,167	(27,867)	125,300
Future income taxes recovery	23D(iii)	(746,913)	746,913	-
Stock based compensation	23D(iv)	743,219	(2,055)	741,164
Exploration expense	23D(i)(a)	-	883,276	883,276
Non-cash ARV expense		-	(3,047)	(3,047)
Non-cash lease inducement recovery		(19,383)	-	(19,383)
		(1,766,703)	(101,655)	(1,868,358)
Expenditures on decommissioning liabilities		(4,542)	-	(4,542)
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	23C(ii)	(13,746,636)	8,335,573	(5,411,063)
Expenditures – E&E assets	23D(i)(a)	-	(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 year		27,931,413	-	27,931,413
Cash and cash equivalents, beginning of the year		3,043,351	-	3,043,351
Cash and cash equivalents, end of the year		30,974,764	-	30,974,764

23. 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 January 1, 2010:

January 1, 2010	Note	Share capital	Contributed surplus	Deficit	Total
As reported under previous GAAP		24,385,762	10,141,849	(13,602,185)	20,925,426
Property, plant, and equipment and decommissioning liabilities expensed	23C(ii)	-	-	(6,356,021)	(6,356,021)
Depletion, depreciation, and impairment of PP&E	23C(ii)	-	-	1,131,157	1,131,157
Decommissioning liability adjustment	23C(iii)	-	-	43,104	43,104
Difference between future tax effect and deferred price premium on flow-through shares	23D(iii)	970,758	-	(970,758)	-
Future income tax effect of share issue cost		(443,352)		443,352	-
Stock-based compensation			(2,572)	2,572	-
Total changes		527,406	(2,572)	(5,706,594)	(5,181,760)
As reported under IFRS – January 1, 2010		**24,913,168**	**10,139,277**	**(19,308,779)**	**15,743,666**

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	23C(ii)	-	-	(98,608)	(98,608)
Depletion, depreciation, and impairment of PP&E	23C(ii)	-	-	(4,105,612)	(4,105,612)
E&E expense	23C(ii)	-	-	(883,276)	(883,276)
Amortization and impairment of E&E assets	23C(ii)	-	-	(1,834,273)	(1,834,273)
Adjustment of gain on acquisition of subsidiary	23D(vi)		-	(1,258,600)	(1,258,600)
Gain on farmout	23D(v)	-	-	3,243,880	3,243,880
Decommissioning liability adjustment	23C(iii)	-	-	27,867	27,867
Deferred price premium on flow-through shares – current year issue	23D(iii)	(1,046,501)	-	-	(1,046,501)
Difference between future tax effect and deferred price premium on flow-through shares	23D(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**

23. 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 23D(i))***	**PP&E** **$**	**E&E** **$**
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 year ended December 31, 2010:

December 31, 2010 ***(Note 23D(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 year	(12,690,842)	5,245,316
Balance as reported under IFRS	**48,663,681**	**5,245,316**

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, the three months ended March 31, 2010 and at transition date:

Decommissioning liabilities ***(Note 23D(ii))***	**Year ended December 31, 2010** **$**	**Opening balance January 1, 2010** **$**
Decommissioning liabilities as reported under previous GAAP	8,653,663	2,188,446
Adjustments from January 1, 2010	1,084,844	-
Discount rate changes to decommissioning liabilities acquired through acquisition of Steen River	1,258,600	-
Discount rate changes capitalized	332,337	1,127,948
Discount rate changes expensed	(3,057)	-
Adjustments to accretion	(27,867)	(43,104)
Total changes for year	2,644,857	1,084,844
Decommissioning liabilities reported under IFRS	**11,298,520**	**3,273,293**

23. First time adoption of IFRS (continued)

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.

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 farm out. Costs of $2,626,600 net of impairment were transferred from E&E, capitalized decommissioning value of $237,418 was added (see *Note 23C(ii)*), 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 23D(ii)*, and accumulated depletion, depreciation, and amortization is discussed below in *Note 23D(i)(d).*

23. First time adoption of IFRS (continued)

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 $3,601,057 in impairment for the year ending December 31, 2010, which represents net of recovery $2,206,578 under PP&E assets and the reminder, $1,394,479, under E&E land, which it does not intend to explore in the near future. 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.

The impairment reversal of $1,326,307 for the year ended December 31, 2010 relates to an increase in the estimated recoverable amount for the certain PP&E assets within the Steen River CGU.

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.

23. First time adoption of IFRS (continued)

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 on 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 farm out 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.

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.

24. Subsequent event

On February 24, 2012 the Corporation announced that it has issued 2,260,000 stock options to directors, officers and employees, of which 1,975,000 went to directors and officers. Each option entitles the holder to acquire one common share of the Corporation for a period of five years at a price of $.90 per share. These options were issued in accordance with the Corporation’s incentive stock option plan.