Management's Discussion and Analysis

Three months ended March 31, 2012

May 30, 2012

The following is Management's Discussion and Analysis ("MD&A") of the financial condition and performance of Strategic Oil & Gas Ltd. ("Strategic" or the "Corporation) for the three months ended March 31, 2012, and is to be read in conjunction with the unaudited interim condensed consolidated financial statements and related notes for the period ended March 31, 2012 and 2011.

Financial and Operational Highlights

	Three Months Ended March 31	
	2012	2011
Financial ($000's, except per share amounts)		
Petroleum and natural gas sales	11,204	4,614
Funds from (used in) operations [(1)]	3,920	(1,295)
Per share basic	0.02	(0.01)
Per share diluted	0.02	(0.01)
Net income (loss)	611	(4,891)
Per share basic	0.00	(0.04)
Per share diluted	0.00	(0.04)
Capital expenditures	30,959	11,922
Working capital surplus (deficit)	(7,593)	9,905
Operating		
Production		
Crude oil (Bbl per day)	1,388	564
Natural gas (Mcf per day)	1,455	1,358
Barrels of oil equivalent (Boe per day)	1,631	790
Average realized price		
Crude oil ($ per Bbl)	86.39	81.39
Natural gas ($ per Mcf)	2.19	3.94
Barrels of oil equivalent ($ per Boe)	75.50	64.85
Netback per Boe ($)		
Petroleum and natural gas sales	75.50	64.85
Royalties	13.79	17.94
Operating expenses	25.78	46.46
Transportation expenses	2.58	2.06
Operating Netback ($ per Boe)	33.35	(1.61)
Common Shares (000's)		
Common shares outstanding, end of period	187,062	138,555
Weighted average common shares (basic)	187,014	138,555
Weighted average common shares (diluted)	188,038	138,555

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

ACCOMPLISHMENTS

- Reported sales volumes for the first quarter of 2012 averaged 1,631 Boe/d compared to 790 Boe/d for the first quarter of 2011, representing a 106% increase over the same period in 2011.

- A total of nine wells were drilled in the Q1 2012 drilling program. Production began to ramp up in mid-March with two new wells on stream. In April, six of the nine wells came on production; corporate sales ramped up to a field estimate of 2400 Boe/d. In May, sales are expected to be above 2800 Boe/d with seven of the nine wells on production. The remaining two wells are planned to be on production in Q3 2012.

- Combined oil and natural gas liquid sales volumes increased 146% quarter over quarter.

- Oil and natural gas liquid sales represented 85% of total sales revenue, up from 71% in the first quarter of 2011.

- Net capital expenditures totaled $31.0 million (52% of annual budgeted capital) for the first quarter of 2012 compared to $11.9 million for the first quarter of 2011.

- Funds from operations for the first quarter of 2012 totaled $3.9 million compared to negative $1.3 million for the first quarter of 2011.

- Reported net income for the first quarter of 2012 of $0.6 million compared to net loss of $4.9 million reported in the first quarter of 2011.

- Reduced operating and transportation costs from $48.52 per Boe in the first quarter of 2011 to $28.36 for the first quarter of 2012, a decrease of 42%.

- Reduced general and administrative expenses from $16.49 per Boe in the first quarter of 2011 to $7.29 per Boe in the first quarter of 2012, a 56% decrease.

ADVISORIES

Basis of Presentation

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

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

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

Non-GAAP Measurements

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

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

The following table reconciles funds from operations to cash flow generated by operating activities for the three months ended March 31:

($**000's**)		**2012**		2011
Net cash generated by operating activities	**$**	**2,136**	$	(3,347)
Abandonment Expenses		**-**		2,164
Changes in non-cash working capital		**1,784**		(112)
Funds from operations	**$**	**3,920**	$	(1,295)

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

Forward-Looking Statements

This report dated May 30, 2012 includes certain information, with management's assessment of Strategic's future plans and operations, and contains forward-looking statements which may include some or all of the following: (i) forecasted capital expenditures and plans; (ii) exploration, drilling and development plans, (iii) prospects and drilling inventory and locations; (iv) anticipated production rates; (v) expected royalty rate; (vi) anticipated operating and service costs; (vii) our financial strength; (viii) incremental development opportunities; (ix) reserve life index; (x) total shareholder return; (xi) growth prospects; (xii) asset disposition plans; (xiii) sources of funding, which are provided to allow investors to better understand our business. By their nature, forward-looking statements are subject to numerous risks and uncertainties; some of which are beyond Strategic's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, changes in environmental tax and royalty legislation, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources, and other risks and uncertainties described under the heading 'Risk Factors' and elsewhere in the Corporation's Annual Information Form for the year ended December 31, 2011 and other documents filed with Canadian provincial securities authorities and are available to the public at www.sedar.com. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The principal assumptions Strategic has made includes security of land interests; drilling cost stability; royalty rate stability; oil and gas prices to remain in their current range; finance and debt markets continuing to be receptive to financing the Corporation and industry standard rates of geologic and operational success. Strategic's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements or if any of them do so, what benefits that Strategic will derive there from. Strategic disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

OPERATIONAL OVERVIEW

The Corporation made significant progress increasing its production during the first quarter of 2012, due to the successful drilling program at the Steen River assets. The program was consistent with the Corporation's strategy to explore, exploit and acquire reservoirs with significant hydrocarbon volumes.

The Corporation's first quarter of 2012 production was enhanced by the successful winter drilling program. The production averaged 1,631 boe per day (85% liquids) which is a 106% increase over the same period in 2011.

The Corporation's first quarter 2012 financial results have benefited from increased production from the drilling program combined with a continued strong oil price environment. The benefit of higher crude oil and natural gas liquids production volumes during the quarter was offset to a degree by the impact of lower prices for natural gas. The Corporation's revenues increased 143% to $11.2 million compared to $4.6 million in the first quarter of 2011. Funds from operations increased to $3.9 million compared to negative cash flow of $1.3 million in the first quarter of 2011.

The Corporation realized average revenue of $75.50 per boe, up 16% compared to $64.85 in the first quarter of 2011.

2012 First Quarter Drilling Results

Strategic continued to development its light oil opportunities at its Steen River core area. Strategic drilled and completed nine wells with a 100% success rate utilizing two drilling rigs. Seven of the nine wells are on production. Remaining two wells are planned to be on production in Q3 2012. The table below details drilling activity with status as of May 30, 2012.

Well	Type	Zone	On Production	IP30 Boe/d	Months on Production	Current Boe/d
102/14-22	Vertical	Keg River	Mar12	310	2	310
103/11-22	Vertical	Keg River	Mar12	300	2	290
102/13-22	Vertical	Keg River	Apr12	295	1	295
100/04-27	Vertical	Keg River	Apr12	340	1	340
100/14-22	Horizontal	Sulphur Point	May12	120[(1)]	1	120
100/10-28	Vertical	Keg River	Apr12	405	1	405
102/11-24	Vertical	Keg River	Q312	-	-	-
103/05-18	Horizontal	Muskeg Stack	Q312	-	-	-
102/12-18	Vertical	Keg River	Apr12	35	1	35

[(1)] ***IP12 (average of the first 12 days of production) – well went on production May 12, 2012.***

There was no drilling activity at Maxhamish in the quarter.

OUTLOOK FOR 2012

At Steen River, Strategic drilled nine wells in Q1 2012. Success in the Q4 2011 and Q1 2012 drilling programs has resulted in a large inventory of follow up drilling locations. Strategic intends to resume drilling activities in Q3 2012 and expects to drill a minimum of five additional wells before the end of 2012. Additional work at Steen will include the acquisition of follow-up 2D seismic data, the extension of all weather lease roads and the expansion of oil processing facilities.

Strategic spent approximately $31.0 million of its $60.0 million 2012 budget in the quarter. With the recent success at Steen River, the Corporation is on track to achieve or exceed its production target of 2400 Boe/d annualized average production with an exit rate of 3,000 Boe/d.

Plans for further activity are proceeding at Maxhamish. Strategic continues to work closely with Legacy, its operating partner to advance this property. It is anticipated that activity will resume in Q3 2012.

In 2011 Strategic acquired a large land position in an emerging oil play in Amber. Strategic has identified multiple prospective oil zones underlying its lands. Extensive road and pipeline infrastructure exists in the Amber area. Strategic plans to drill two exploratory wells on these lands commencing in Q3 2012.

Summary

Strategic is in a unique position for growth with:

i) ongoing drilling program at Steen River with over 100 net sections of undeveloped land;
ii) the ability to significantly increase production at Steen River utilizing existing infrastructure;
iii) ongoing drilling program at Maxhamish, with over 100 gross (38.5 net) sections of land;
iv) drill ready targets in an emerging oil play at Amber; and
v) access to three drilling rigs for the remainder of 2012 with options for continued utilization into 2013.

IMPACT OF CURRENT ECONOMIC VOLATILITY AND UNCERTAINTY

The increase in production of gas in North America, and an unusually warm winter resulting in reduced heating demand for gas has given rise to record gas storage levels relative to prior years. The ensuing reduction in natural gas prices may continue through 2012. Furthermore, increases in the discount differential to world oil prices are resulting in a reduction in the price for oil realized in Canada. Notwithstanding the current price challenges in both the oil and gas markets, the Corporation expects to continue profitably exploiting its current land base, and growing production. The Corporation will continue to monitor its funds from operations, cash position and available credit facilities to ensure its ability to fund the remainder of its planned capital program for 2012.

The Corporation has continued to realize significant value pursuant to provincial drilling program incentives under the Alberta Royalty Framework. This incentive program is expected to continue to benefit the Corporation through a reduction in its effective royalty rate.

RESULTS OF OPERATIONS

Production

	Three months ended		
	March 31, 2012	March 31, 2011	% Change
Oil, condensate, & ngls – bbls/d	**1,388**	564	146
Natural gas – mcf/d	**1,455**	1,358	7
Total daily production (boe/d)	**1,631**	790	106

Production for the three months ended March 31, 2012 averaged 1,631 Boe/d consisting of 1,388 bbls per day of crude oil plus ngls and 1,455 Mcf/d of natural gas. Production during the quarter was 106% higher than the same period in 2011 of 790 Boe/d. The increase can be attributed towards the successful winter drilling program at Steen River area.

The Corporation's production portfolio for the quarter was weighted 85% to crude oil and natural gas liquids and 15% to natural gas.

Revenue

The Corporation's revenues for the first quarter of 2012 increased 143% to $11,204 million when compared to $4,614 million for the same period in 2011 as a result of the 106% increase in production and a higher weighting to higher valued oil and liquids production. The Corporation's average conventional oil price realized increased 16% to $75.50 as compared to $64.85 in 2011. During the first quarter, the Corporation's average natural gas price realized decreased 44% over the same period in 2011.

($000's)	Three months ended March 31, 2012	March 31, 2011	% Change
Sales			
Oil, condensate, and ngls	**$ 10,914**	$ 4,133	164
Natural gas	**290**	481	(40)
Total sales	**$ 11,204**	$ 4,614	143
Average prices			
Oil and ngls ($/bbl)	**$ 86.39**	$ 81.39	6
Natural gas ($/mcf)	**2.19**	3.94	(44)
Oil equivalent ($/boe)	**$ 75.50**	$ 64.85	16

The average price realized for oil and ngls in 2012 increased by 6% to $86.39 compared to $81.39 per bbl in 2011. However, the Corporation's average natural gas price realized decreased by 44% to $2.19 per mcf as compared to $3.94 per mcf in 2011.

Overall, the combined average prices realized increased by 16% to $75.50 per boe compared to 2011 of $64.85 per boe.

Royalties

Royalty expense consists of royalties paid to provincial governments (including the effect of the Crown royalty initiative program), freehold land owners and overriding royalty owners. Royalty expense also includes the impact of Gas Cost Allowance ("GCA"), which is the reduction of natural gas royalties payable to the Government of Alberta to recognize capital and operating expenditures incurred in the gathering and processing of its royalty share of production.

($000's)	Three months ended March 31, 2012	March 31, 2011
Crown royalties	**$ 1,737**	$ 1,151
Freehold royalties	**-**	21
Overriding royalties	**310**	105
Total royalties	**$ 2,047**	$ 1,277
Per boe	**$ 13.79**	$ 17.94
Percentage of crude oil & natural gas revenues	**18.3%**	27.7%

For the quarter, royalties increased 60% to $2.0 million from $1.3 million for the same period in 2011 due to higher production. Royalties as a percentage of revenues for the first quarter of 2012 decreased to 18.3% compared to 27.7% for the same period in 2011 mainly due to the Alberta Royalty Incentive program.

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

Operating and transportation costs

($000's)	Three months ended March 31, 2012	March 31, 2011
Operating costs	**$ 3,826**	$ 3,305
Transportation costs	**383**	146
	$ 4,209	$ 3,452
Per boe		
Operating costs	**$ 25.78**	$ 46.46
Transportation costs	**2.58**	2.06
	$ 28.36	$ 48.52

Total operating costs increased in conjunction with higher production. Operating costs on a unit of production basis decreased in comparison to the same period in 2011 as a result of the efficiencies achieved in allocating fixed operating costs over a higher production base. These efficiencies were offset, in part, by higher operating costs associated with increased oil production.

For the three months ended March 31, 2012, combined production and transportation expense averaged $28.36 per boe compared to $48.52 per boe in the same quarter of the previous year.

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

Exploration and Evaluation Expense

	Three months ended	
($000's)	**March 31, 2012**	March 31, 2011
Exploration and Evaluation	**$ 103**	$ 181
Per boe	**$ 0.69**	$ 2.55

The Corporation's exploration and evaluation expense represents all pre-license costs, undeveloped land and geophysical and geological costs that are initially capitalized costs on exploration and evaluation assets that have been subsequently expensed due to a lack of technical feasibility and commercial viability. These costs represent exploration and evaluation costs associated with an exploration area and costs incurred prior to obtaining the legal right to explore. Surface rentals associated with exploratory assets are capitalized and amortized over the lease term of five years.

For the period ended March 31, 2012, the Corporation recorded $0.1 million of exploration and evaluation expenses compared to $0.2 million for the same period in the prior year. The change in exploration and evaluation expenditures between the periods is due mainly to expired land leases.

Operating netbacks

	Three months ended	
($000's)	**March 31, 2012**	March 31, 2011
Per boe		
Revenues	**$ 75.50**	$ 64.85
Royalties	**(13.79)**	(17.94)
Operating costs	**(25.78)**	(46.46)
Transportation costs	**(2.58)**	(2.06)
Netback per boe	**$ 33.35**	$ (1.61)

The Corporation's first quarter operating netback increased to $33.35 per boe as compared to ($1.61) in the same period in 2011. The increase is contributed to an increase in production, an increase in commodity prices, reduced royalty rates and an increase in operating efficiencies compared to the same period in 2011.

General and administrative expenses

	Three months ended	
($000's)	**March 31, 2012**	March 31, 2011
Wages and employee benefits	**$ 713**	$ 546
Professional fees	**103**	64
Consulting fees	**132**	232
Public reporting	**60**	99
Occupancy costs	**175**	113
Travel	**39**	55
Miscellaneous general and administrative	**(141)**	64
Total	**1,081**	$ 1,173

Per boe	**$**	**7.29**	$	16.49

General and administrative expenses were lower in 2012, primarily as a result of higher overhead recoveries on relatively higher capital expenditures, partially offset by increased salary and benefits costs in 2012. Increased sales volumes in 2012, over prior quarter further reduced general and administrative expenses on a boe basis. The costs per boe for the first quarter of 2012 decreased by 56% to $7.29 per boe as compared to $16.49 for the same period in 2011.

Finance Expense

	Three months ended			
($000's)	**March 31, 2012**		March 31, 2011	
Interest expense – bank loan	**$**	**3**	$	13
Interest expense – debenture		**-**		42
Accretion expense *(1)*		**78**		51
Total	**$**	**81**	$	106
Per boe	**$**	**0.55**	$	1.50

Overall finance expense in 2012 decreased 24% to $0.08 million compared to $0.10 million in 2011. Interest expense decreased by 77% to $0.003 million compared to $0.01 million due to lower debt levels. Interest on the debenture was due to the assumption of debt as part of the acquisition of Steen River. On November 30, 2011, the Corporation redeemed all of the outstanding secured debentures in the amount of $3.43 million.

Accretion expense is a measure of the increase in the present value of the decommissioning obligation due to the passage of time. In the first quarter of 2012, the Corporation recorded an upward revision in the estimated cost of future site restoration resulting in an increase in the decommissioning obligation. Correspondingly, accretion expense for the three month period ended March 31, 2012 increased to $0.08 million from $0.05 million in 2011.

Stock based compensation

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

During the period ended March 31, 2012 the Corporation recorded $0.9 million related to the options granted as compared to $2.7 million recorded in the previous year. The decrease in share based payments is due to issuance of 2,260,000 stock options in 2012 compared to 3,260,000 issued in the same period in 2011.

Depletion, depreciation and amortization

	Three months ended			
($000's)	**March 31, 2012**		March 31, 2011	
Depreciation, depletion, and amortization	**$**	**4,460**	$	1,759
Per boe	**$**	**30.05**	$	24.72

Depletion and depreciation is computed on a unit of production basis. Such expense, on a boe basis, fluctuates period to period primarily as a result of changes in the underlying proved and probable reserve base and in the amount of costs subject to depletion and depreciation. Such costs are segregated and depleted on an area by area basis relative to the respective underlying proved and probable reserves base. The depletion and depreciation expense for the three months ended March 31, 2012 increased by 154% to $4.5 million compared to the same period in 2011 at $1.8 million, largely due to higher production volumes of which depletion is based upon. On a boe basis, the costs increased by 22% to $30.05 per boe compared to $24.72 for the three months ending March 31, 2011. The increase is the result of higher capital and

future development costs subject to depletion, offset by the higher additions to the proved and probable reserves base.

Capital Expenditures

($000's)	Three months ended March 31, 2012	March 31, 2011
Drilling and completions	**$ 21,664**	$ 6,162
Equipping and facilities	**8,360**	2,419
Other	**28**	13
	30,052	8,594
Drilling incentive credits	**-**	(116)
Total Property, plant and equipment	**30,052**	8,478
Land and seismic	**907**	3,444
Total exploration and evaluations	**907**	3,444
Total net capital expenditures	**$ 30,959**	$ 11,922

During the first quarter of 2012, the Corporation invested $31.0 million on drilling activities compared to $11.9 million in 2011.

Capital expenditures increased in the first quarter of 2012 compared to the similar period in 2011 as the Corporation executed 52% of its annual capital expenditure budget. The capital expenditures were mainly focused on developing Steen River area.

Capital expenditure program in Q1 of 2012 included:

- Drilled and cased five Keg River development wells. Two wells were placed on production in March and the remaining three were on production in April.
- Drilled and cased two Keg River exploration step out wells. Both wells have been completed with the first tied-in and on production in April. The second was completed and awaiting tie-in (August).
- Drilled and cased one Sulphur Point horizontal well. Well placed on production in April.
- Drilled and cased one Muskeg Stack horizontal well. This well is expected to be on production in June.
- Pipeline tie-in of two Keg River step out locations. Pipeline will open an additional 4 km of access for additional drilling in the North Marlowe area to accommodate numerous locations in 2012/2013 for both the Keg River and Sulphur Point.
- Extension to the all weather lease roads in the North Marlowe area.
- Six lines (30.4 km) of 2-D seismic.
- Infrastructure upgrades.

During the first quarter of 2012, the Corporation spent $0.9 million on additional undeveloped land and seismic in the Steen area compared to $3.4 million spent in 2011.

SUMMARY OF QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results:

Quarter ended ($000's, except per share amounts)	**Mar-12**	Dec-11	Sep-11	Jun-11	Mar-11	Dec-10	Sep-10	Jun-10
Petroleum and natural gas sales	**$ 11,204**	$ 8,606	$ 5,200	$ 5,432	$ 4,614	$ 1,640	$ 1,504	$ 1,293
Income (loss)	**611**	(16,194)	(1,395)	(2,167)	(4,890)	3,092	(1,219)	(986)
Income (loss) per share								
Basic	**0.00**	(0.11)	(0.01)	(0.02)	(0.04)	0.03	(0.02)	(0.01)
Diluted	**0.00**	(0.11)	(0.01)	(0.02)	(0.04)	0.03	(0.02)	(0.01)
Production boe/d	**1,631**	1,230	914	884	790	317	314	266

Average price/boe	**$ 75.50**	$ 76.03	$ 61.83	$ 67.54	$ 64.85	$ 56.21	$ 52.08	$ 53.38

LIQUIDITY AND CAPITAL RESERVES

The Corporation considers its capital structure to include shareholders' equity and working capital, including bank debt. The objectives of the Corporation are to maintain a strong balance sheet affording the Corporation financial flexibility to achieve goals of continued growth and access to capital.

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

($000's)	**March 31, 2012**	December 31, 2011
Current assets	**$ 20,706**	$ 37,443
Current liabilities	**(28,299)**	(17,908)
Net working capital surplus (deficit)	**$ (7,593)**	$ 19,535
Total line of credit	**$ 21,000**	$ 21,000
Authorized Letters of Guarantee	**(800)**	(800)
Unutilized line of credit	**20,200**	20,200
Net available funds	**$ 12,607**	$ 39,735

The Corporation is currently projecting its remaining 2012 capital program to be approximately $30 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.

SHARE CAPITAL

	Three Months Ended	
	March 31, 2012	March 31, 2011
Outstanding Common shares		
Weighted average common shares outstanding		
- Basic	**187,013,716**	138,555,366
- Diluted	**188,037,722**	138,555,366

	March 31, 2012	March 31, 2011
Outstanding Securities		
- common shares	**187,062,068**	138,555,366
- common share options	**8,000,333**	6,971,667

During the period ended March 31, 2012, the Corporation granted 2,260,000 stock options to directors, officers and employees, of which 1,875,000 went to officers and directors. Each option entitles the holder to acquire one common share of the Corporation for a period of five years at a price of $.90 per share. These options were issued in accordance with the Corporation's incentive stock option plan.

TRANSACTIONS WITH RELATED PARTIES

During the three months ended March 31, 2012, legal fees in the amount of $.07 million (March 31, 2011 - $0.05 million) were incurred to a legal firm of which a director is a partner, and included as general and administrative expenses or share issue costs. Consulting fees in the amount of $0.02 million (March 31, 2011

- $0.01 million) were incurred by a former director for geophysical consulting services. Software charges of $0.03 million (March 31, 2011 - $0.03 million) were charged by a company controlled by an officer. Accounts payable and accrued liabilities at March 31, 2012 include $0.13 million (December 31, 2011 - $0.15 million) due to related parties. The above transactions were conducted in the normal course of operations and were recorded at exchange amounts which were agreed upon between the Corporation and the related parties.

COMMITMENTS

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

Year ended	($000's)
2012	$ 234
2013	263
	$ 497

b) Pursuant to the issue of flow-through shares in December 2011, the Corporation committed to incur a total of $10.0 million on qualify expenditures prior to December 31, 2012. As of March 31, 2012, the Corporation has fulfilled its commitment.

OUTSTANDING SHARE DATA

Common Shares

The Corporation is authorized to issue an unlimited number of common shares. As at May 24, 2012 the Corporation had 187,099,068 common shares outstanding and 7,923,334 stock options outstanding under its stock-based compensation program.

ACCOUNTING POLICIES AND ESTIMATES

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

A summary of the significant accounting policies used by the Corporation can be found in Note 3 of the December 31, 2011 audited consolidated financial statements. Note 2 of the Corporation's audited consolidated financial statements for the year ended December 31, 2011 provides a summary of the areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Corporation's financial statements.

RISK ASSESSMENT

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

ADDITIONAL INFORMATION

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

Interim Condensed Consolidated Financial Statements

For the period ended March 31, 2012

(unaudited)

Strategic Oil & Gas Ltd.

Condensed consolidated balance sheets (unaudited)

($000's)	Note	March 31, 2012	December 31, 2011
Assets			
Current assets:			
Cash and cash equivalents		**$ 12,940**	$ 31,808
Trade and other receivables		**7,766**	5,635
		20,706	37,443
Property, plant, and equipment, net	5	**97,498**	70,924
Exploration and evaluation assets	4	**9,272**	9,328
Total Assets		**$ 127,476**	$ 117,695
Liabilities			
Current Liabilities:			
Accounts payable and accrued liabilities		**$ 28,029**	$ 17,908
Deferred price premium on flow-through shares	6	**-**	2,275
Decommissioning liabilities		**270**	-
		28,299	20,183
Long Term Liabilities:			
Decommissioning liabilities	7	**12,453**	12,523
Total Liabilities		**$ 40,752**	$ 32,706
Shareholders' Equity			
Share capital	8	**$ 123,284**	$ 122,973
Contributed surplus		**7,123**	6,310
Deficit		**(43,683)**	(44,294)
		86,724	84,989
Total Liabilities and Shareholders' Equity		**$ 127,476**	$ 117,695

Commitments (*Note 12)*

Approved by the Board of Directors

Signed: - "Arn Schoch"

Signed: - "Rick Skeith"

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

Strategic Oil & Gas Ltd.

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

($000's, except per share amounts)	Note	Three months ended March 31, 2012	March 31, 2011
Revenues			
Petroleum and natural gas sales		**$ 11,204**	$ 4,614
Royalties		**(2,047)**	(1,277)
		9,157	3,337
Other Income		**61**	54
Revenues, net of royalties		**9,218**	3,391
Expenses			
Operating costs		**3,826**	3,305
Transportation		**383**	146
Exploration and evaluation expense	4	**103**	181
General and administrative		**1,081**	1,173
Finance costs	9	**81**	107
Stock-based compensation	8(b)	**948**	2,657
Depletion, depreciation, and amortization		**4,460**	1,759
		$ 10,882	$ 9,328
Operating loss before taxes		**$ (1,664)**	$ (5,937)
Deferred tax recovery		**2,275**	1,047
Net income (loss) and comprehensive (loss) income for the period		**$ 611**	$ (4,890)
Net income (loss) per weighted average share			
Basic		**$0.00**	($0.04)
Diluted		**$0.00**	($0.04)
Weighted average shares outstanding - Basic	8(c)	**187,014**	138,555
Weighted average shares outstanding - Diluted	8(c)	**188,038**	138,555

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

Strategic Oil & Gas Ltd.

Condensed consolidated statements of changes in shareholders' equity (unaudited)

($000's)	Note	Share Capital	Contributed surplus	Deficit	Total equity
Balance January 1, 2012		**$ 122,973**	**$ 6,310**	**$ (44,294)**	**$ 84,989**
Share issue costs	8(a)	(14)	-	-	**(14)**
Stock options exercised	8(b)	325	(135)	-	**190**
Stock based compensation	8(b)	-	948	-	**948**
Net income		-	-	611	**611**
Balance March 31, 2012		$ **123,284**	$ **7,123**	$ **(43,683)**	**$ 86,724**

	Note	Share Capital	Contributed surplus	Deficit	Total equity
Balance January 1, 2011		**$ 83,374**	**$ 3,767**	**$ (19,648)**	**$ 67,494**
Share issue costs		(5)	-	-	(5)
Stock based compensation	8(b)	-	2,657	-	2,657
Net loss		**-**	**-**	(4,891)	(4,891)
Balance March 31, 2011		$ **83,369**	$ **6,424**	$ **(24,539)**	**$ 65,255**

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

Strategic Oil & Gas Ltd.

Condensed consolidated statements of cash flows (unaudited)

($000's)	Note		March 31,2012		March 31, 2011
Operating activities:					
Net income (loss) for the period		**$**	**611**	$	(4,890)
Non-cash items:					
Depletion, depreciation, and amortization			**4,460**		1,759
Accretion of decommissioning liabilities			**78**		51
Stock-based compensation			**948**		2,657
Exploration and evaluation expense			**103**		181
Deferred tax recovery			**(2,275)**		(1,047)
Non-cash ARV expense			**-**		(1)
Non-cash lease inducement			**(5)**		(5)
Funds from operations		**$**	**3,920**	$	(1,295)
Expenditures on decommissioning liabilities			**-**	$	(2,164)
Net changes in other assets and liabilities	10		**(1,784)**		112
		$	**2,136**	$	(3,347)
Financing activities:					
Exercise of options			**190**		-
Share issuance costs	8(a)		**(14)**		(5)
		$	**176**	$	(5)
Investing activities:					
Expenditures – property, plant and equipment	5	**$**	**(30,052)**	$	(8,478)
Expenditures – exploration and evaluation assets	4		**(907)**		(3,444)
Changes in non-cash working capital	10		**9,779**		3,769
		$	**(21,180)**	$	(8,153)
Decrease in cash and cash equivalents during the period		**$**	**(18,868)**	$	(11,505)
Cash and cash equivalents, beginning of the period			**31,808**		30,974
Cash and cash equivalents, end of the period		**$**	**12,940**	$	19,469

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

1. Corporate information

Strategic Oil & Gas Ltd. ("Strategic" or the "Corporation") was incorporated under the laws of the Province of British Columbia on December 30, 1987 and continued as an Alberta corporation on September 9, 2010. On March 29, 2006, Strategic incorporated a United States of America (USA) subsidiary, Strategic Oil & Gas, Inc. ("US Subsidiary") through which all oil and gas activities in the USA are conducted. ZinMac Inc. ("ZinMac"), a private oil and gas consulting company was acquired on March 10, 2009, and Steen River Oil & Gas Ltd. ("Steen River"), a private oil and gas exploration and production company, was acquired on December 22, 2010 by Strategic. The Corporation amalgamated Zinmac and Steen River into Strategic Oil & Gas Ltd. on April 1, 2012.

Strategic Oil & Gas Ltd. is a publicly listed company whose 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 presentation

a) Statement of compliance:

The interim condensed consolidated financial statements have been prepared by management and reported in Canadian dollars in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements and notes thereto in the Corporation's December 31, 2011 annual consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Corporation's Board of Directors on May 24, 2012.

b) Estimates:

The timely preparation of the interim condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2011

3. Significant accounting policies

The interim condensed consolidated financial statements have been prepared, for all periods presented, following the same accounting policies and methods of computation as described in *Note 3* to the consolidated financial statements for the year ended December 31, 2011.

a) New Accounting Pronouncements

Unless otherwise noted, the revised standards and amendments as disclosed in *Note 3* of the 2011 annual consolidated financial statements are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will adopt them early.

4. Exploration and evaluation assets

($000's)	March 31, 2012
Opening balance	$ 9,328
E&E expenditures	907
E&E expensed during the period	(103)
Amortization	(860)
Closing balance	$ 9,272

During the three months ended March 31, 2012, the Corporation expensed $0.1 million (March 31, 2011 - $0.2 million) related to seismic and pre-licensing costs expended on land which is not intended to be developed in the future.

5. Property, plant, and equipment

Carry value before accumulated depletion and depreciation	D&P assets	Office and other	Total
As at December 31, 2011	$ 105,145	$ 611	$ 105,756
Additions	30,024	28	30,052
Change in decommissioning costs	122	-	122
As at March 31, 2012	**$ 135,291**	**$ 639**	**$ 135,930**

Accumulated depreciation and depletion	D&P assets	Office and other	Total
As at December 31, 2011	$ 34,463	$ 369	$ 34,832
Depreciation, depletion, and amortization	3,569	31	3,600
As at March 31, 2012	**$ 38,032**	**$ 400**	**$ 38,432**

Net carrying value	D&P assets	Office and other	Total
As at December 31, 2011	70,682	242	70,924
As at March 31, 2012	**$ 97,259**	**$ 239**	**$ 97,498**

All of the Corporation's development and production assets are located within Canada. The Corporation's bank loan is secured by a general security agreement including a floating charge on all lands. The cost of property, plant and equipment include amounts in respect of the provision for decommissioning and restoration obligations.

Future capital costs of $27.6 million (March 31, 2011 - $14.3 million) have been included in the depletable balance as at March 31, 2012. 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 $8.2 million (March 31, 2011 - $6.8 million). Depletion and depreciation for the three months ended March 31, 2012 was $3.6 million (March 31, 2011 - $1.1 million).

6. Deferred price premium on flow-through shares

($000's)	March 31, 2012	December 31, 2011
Balance, beginning of the year	$ 2,275	$ 1,047
Flow-through renunciation	(2,275)	(1,047)
Additional deferred price premiums on flow-through shares	-	2,275
Balance, end of the year	$ -	$ 2,275

The Corporation issued 9,100,000 common shares on a flow through basis with an estimated aggregate flow through premium of $2.3 million. During the three months ended March 31, 2012, the tax value of the flow through issues was renounced to shareholders and $2.3 million was recognized into earnings.

7. 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 March 31, 2012 were $22.3 million (December 31, 2011 - $20.8 million). The estimated costs have been discounted at a risk free rate from 1.19% to 2.66% (December 31, 2011 -2.50% to 3.66%) and an inflation rate of 2% (December 31, 2011 – 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 changes to the Corporation's decommissioning liabilities:

		March 31, 2012
Balance beginning of the period	**$**	**12,523**
Liabilities incurred		**594**
Liabilities settled		**-**
Change in estimated future cash flows		**(122)**
Change in discount rate		**(350)**
Accretion		**78**
Balance end of the period	**$**	**12,723**
Current at March 31, 2012	**$**	**270**
Long term at March 31, 2012	**$**	**12,453**

8. Share capital

a) Authorized

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

	March 31, 2012		
	Number of shares		Amount
Balance beginning of the period	**186,562,068**	$	122,973
Exercise of warrants and options	**500,000**		325
Share issue costs	**-**		(14)
Balance end of the period	**187,062,068**	$	123,284

b) Stock-based compensation

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

In February 2012, 2,260,000 common share options were issued and vested immediately. These options expire five years from the date of issue. The Corporation recorded $0.9 million (March 31, 2011 - $2.7 million) of stock based compensation related to the issuance.

8. Share capital continued

The following table summarized the stock option outstanding and exercisable under the plan at March 31, 2012:

	Number of Options	Weighted Average Exercise Price
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**
Issued	2,260,000	0.90
Exercised	(500,000)	(0.38)
Expired	(540,000)	(1.10)
Balance at March 31, 2012	**8,000,333**	**$0.84**

The following table sets out the outstanding options as at March 31, 2012:

All stock options, issued and exercisable		
Number of Options	Weighted Average Exercise Price	Weighted Average Life Years
350,000	$0.25	1.94
1,083,334	$0.50	2.35
1,162,000	$0.65	2.72
424,999	$0.75	1.94
2,260,000	$0.90	4.9
100,000	$0.91	4.59
2,620,000	$1.10	3.71
8,000,333	**$0.84**	**3.56**

c) Weighted average shares

	Three months ended March 31, 2012	Three months ended March 31, 2011
Weighted average shares (basic)	**187,013,716**	138,555,366
Weighted average shares (diluted)	**188,037,722**	138,555,366

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

d) 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:

	March 31, 2012	March 31, 2011
Assumptions		
Risk free interest rate (%)	**1.20**	2.56
Expected life (years)	**3.00**	5.00
Expected volatility (%)	**84.58**	104.23
Expected dividend yield (%)	**-**	-
Forfeiture rate (%)	**7.63**	8.17
Weighted average fair value of options granted ($)	**0.42**	0.89

8. Share capital continued

Forfeiture rate is calculated based on historical forfeiture data of the Corporation.

The weighted average share price at the date of exercise for share options exercised during the three months ended March 31, 2012 was $0.87 (December 31, 2011 - $0.95).

9. Finance costs

	Three months ended March 31, 2012	Three months ended March 31, 2011
Interest expense – bank loan	**$ 3**	$ 14
Interest expense – debenture	**-**	42
Accretion of decommissioning liabilities	**78**	51
	$ 81	$ 107

10. Supplemental cash flow information

	March 31, 2012	March 31, 2011
Interest paid	**$ 3**	$ 56
Taxes paid	**-**	-
Total	**$ 3**	$ 56
Changes in non-cash working capital		
Trade and other receivables	**$ (2,131)**	$ (948)
Accounts payable and accrued liabilities *(Note 1)*	**10,121**	4,829
	7,990	3,881
Operating	**(1,784)**	112
Investing	**9,779**	3,769
	$ 7,995	$ 3,881

(i): included in the accounts payable and accrued liabilities is $4,848 (2011 - $4,846) of non-cash lease inducement.

11. Transactions with Related Parties

During the three months ended March 31, 2012, legal fees in the amount of $.07 million (March 31, 2011 - $0.05 million) were incurred to a legal firm of which a director is a partner, and included as general and administrative expenses or share issue costs. Consulting fees in the amount of $0.02 million (March 31, 2011 - $0.01 million) were incurred by a former director for geophysical consulting services. Software charges of $0.03 million (March 31, 2011 - $0.03 million) were charged by a company controlled by an officer. Accounts payable and accrued liabilities at March 31, 2012 include $0.13 million (December 31, 2011 - $0.15 million) due to related parties. The above transactions were conducted in the normal course of operations and were recorded at exchange amounts which were agreed upon between the Corporation and the related parties.

12. Commitments

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

12. Commitments continued

Year ended	($000's)
2012	$ 234
2013	263
	$ 497

b) Pursuant to the issue of flow through shares in December 2011, the Corporation committed to incur a total of $10.0 million on qualifying expenditures prior to December 31, 2012. As of March 31, 2012, the Corporation has fulfilled its commitment.