# Interim Condensed Consolidated Financial Statements

## For the three months ended March 31, 2014 and 2013

# Strategic Oil & Gas Ltd.

## Interim condensed consolidated balance sheets (unaudited)

| ($000) | Note | March 31, 2014 | December 31, 2013 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | | $ **37,988** | $ 226 |
| Inventory | | **331** | 379 |
| Trade and other receivables | | **11,998** | 9,080 |
| | | **50,317** | 9,685 |
| Long-term receivable | 7 | **3,001** | - |
| Property, plant, and equipment, net | 5 | **282,479** | 249,841 |
| Exploration and evaluation assets | 4 | **16,221** | 14,695 |
| **Total Assets** | | $ **352,018** | $ 274,221 |
| **Liabilities** | | | |
| Current Liabilities: | | | |
| Accounts payable and accrued liabilities | | $ **47,121** | $ 28,457 |
| Bank indebtedness | 6 | **75,000** | 63,775 |
| Deferred price premium on flow-through shares | | **350** | 1,619 |
| Risk management contracts | 13 | **10,697** | 7,276 |
| | | $ **133,168** | $ 101,127 |
| Long term Liabilities: | | | |
| Risk management contracts | 13 | $ **1,319** | 1,481 |
| Decommissioning liabilities | 7 | **41,941** | 35,932 |
| **Total Liabilities** | | $ **176,428** | $ 138,540 |
| **Shareholders' Equity** | | | |
| Share capital | 8 | **247,400** | 197,970 |
| Contributed surplus | | **9,370** | 9,227 |
| Deficit | | **(81,180)** | (71,516) |
| | | $ **175,590** | $ 135,681 |
| **Total Liabilities and Shareholders' Equity** | | $ **352,018** | $ 274,221 |

*See accompanying notes to the Interim Condensed Consolidated Financial Statements*

# Strategic Oil & Gas Ltd.

## Interim condensed consolidated statements of loss and comprehensive loss (unaudited)

| **($000, except per share amounts)** | Note | | **Three months ended March 31, 2014** | | 2013 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Petroleum and natural gas sales | | **$** | **21,759** | $ | 17,887 |
| Royalties | | | **(4,488)** | | (4,168) |
| | | | **17,271** | | 13,719 |
| Unrealized loss on risk management contracts | 13 | | **(3,259)** | | (828) |
| Net realized loss on risk management contracts | 13 | | **(2,564)** | | 52 |
| Other income | | | **3** | | 70 |
| **Revenues** | | **$** | **11,451** | $ | 13,013 |
| | | | | | |
| **Expenses** | | | | | |
| Operating costs | | **$** | **9,607** | $ | 6,249 |
| Transportation | | | **1,543** | | 1,249 |
| General and administrative | | | **1,690** | | 1,905 |
| Finance costs | 10 | | **1,161** | | 603 |
| Stock-based compensation | 9 | | **171** | | 412 |
| Depletion, depreciation and amortization | | | **8,554** | | 5,966 |
| Gain on disposal of property, plant and equipment | 12 | | **(344)** | | - |
| | | **$** | **22,382** | $ | 16,384 |
| | | | | | |
| **Operating loss before taxes** | | **$** | **(10,931)** | $ | (3,371) |
| Deferred tax recovery | | | **1,267** | | - |
| **Net loss and comprehensive loss for the period** | | **$** | **(9,664)** | $ | (3,371) |
| **Net loss per weighted average share** | | | | | |
| Basic | | **$** | **(0.04)** | $ | (0.02) |
| Diluted | | **$** | **(0.04)** | $ | (0.02) |
| **Weighted average shares outstanding - Basic** | 8(c) | | **261,785** | | 189,724 |
| **Weighted average shares outstanding - Diluted** | 8(c) | | **261,785** | | 189,724 |

*See accompanying notes to the Interim Condensed Consolidated Financial Statements.*

# Strategic Oil & Gas Ltd.

Interim condensed consolidated statements of changes in shareholders' equity (unaudited)

| ($000) | Note | | Share Capital | | Contributed Surplus | | Deficit | | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance January 1, 2014** | | **$** | **197,970** | **$** | **9,227** | **$** | **(71,516)** | **$** | **135,681** |
| Issue of shares | | | 50,000 | | - | | - | | 50,000 |
| Share issue costs | 8(b) | | (666) | | - | | - | | (666) |
| Stock options exercised | 8(b) | | 96 | | (28) | | - | | 68 |
| Stock based compensation | 8(b) | | - | | 171 | | - | | 171 |
| Net loss | | | - | | - | | (9,664) | | (9,664) |
| **Balance March 31, 2014** | | **$** | **247,400** | **$** | **9,370** | **$** | **(81,180)** | **$** | **175,590** |

| ($000) | Note | | Share Capital | | Contributed Surplus | | Deficit | | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance January 1, 2013** | | **$** | **122,999** | **$** | **7,958** | **$** | **(49,200)** | **$** | **81,757** |
| Issue of shares | 8 | | 29,000 | | - | | - | | 29,000 |
| Share issue costs | 8(b) | | (851) | | - | | - | | (851) |
| Stock options exercised | 8(b) | | 1,132 | | (455) | | - | | 677 |
| Stock based compensation | 8(b) | | - | | 412 | | - | | 412 |
| Net loss | | | - | | - | | (3,371) | | (3,371) |
| **Balance March 31, 2013** | | **$** | **152,280** | **$** | **7,915** | **$** | **(52,571)** | **$** | **107,624** |

*See accompanying notes to the Interim Condensed Consolidated Financial Statements.*

# Strategic Oil & Gas Ltd.

## Interim condensed consolidated statements of cash flow (unaudited)

| | | | Three months ended March 31 | | |
|---|---|---|---|---|---|
| **($000)** | **Note** | | **2014** | | 2013 |
| **Operating activities:** | | | | | |
| Net loss for the period | | **$** | **(9,664)** | $ | (3,371) |
| Non-cash items: | | | | | |
| Depletion, depreciation, and amortization | | | **8,554** | | 5,966 |
| Accretion of decommissioning liabilities | | | **275** | | 190 |
| Stock-based compensation | | | **171** | | 412 |
| Unrealized loss on risk management contracts | 13 | | **3,259** | | 828 |
| Deferred tax recovery | | | **(1,267)** | | - |
| Gain on acquisition | | | **-** | | (61) |
| Gain on disposal of property, plant and equipment | 12 | | **(344)** | | - |
| Other non-cash items | | | **-** | | (6) |
| **Funds from operations** | | **$** | **984** | $ | 3,958 |
| | | | | | |
| Expenditures on decommissioning liabilities | | | **(1,281)** | | (673) |
| Change in non-cash working capital | 11 | | **10,398** | | (447) |
| **Cash provided by operating activities** | | **$** | **10,101** | $ | 2,838 |
| | | | | | |
| **Financing activities:** | | | | | |
| Issue of common shares | | **$** | **50,000** | $ | 29,000 |
| Increase in bank loan | | | **11,225** | | 13,725 |
| Exercise of options | | | **68** | | 677 |
| Share issuance costs | 8 | | **(666)** | | (851) |
| **Cash provided by financing activities** | | **$** | **60,627** | $ | 42,551 |
| **Investing activities:** | | | | | |
| Expenditures – property, plant and equipment | | **$** | **(36,334)** | $ | (45,681) |
| Expenditures – exploration and evaluation assets | | | **(2,120)** | | (4,587) |
| Acquisitions | | | **-** | | (10,098) |
| Proceeds on disposal of property, plant and equipment | 12 | | **344** | | - |
| Changes in non-cash working capital | 11 | | **5,144** | | 18,760 |
| **Cash used in investing activities** | | **$** | **(32,966)** | $ | (41,606) |
| **(Decrease) increase in cash and cash equivalents during the period** | | **$** | **37,762** | $ | 3,783 |
| **Cash and cash equivalents, beginning of the period** | | | **226** | | 2,510 |
| **Cash and cash equivalents, end of the period** | | **$** | **37,988** | $ | 6,293 |

*See accompanying notes to the Interim Condensed Consolidated Financial Statements.*

## 1. Corporate information

Strategic Oil & Gas Ltd. (“Strategic”) is a company registered and domiciled in Alberta. On February 28, 2013, Strategic acquired all the outstanding common shares of Strategic Transmission Ltd. in conjunction with the acquisition of oil and gas assets in northwest Alberta and the Northwest Territories. Strategic Transmission Ltd. has nominal assets and no liabilities.

Strategic is a publicly traded Company whose shares are listed on the TSX Venture Exchange. Strategic, together with its subsidiaries, (collectively referred to as the “Company”) is engaged in the exploration for and development of petroleum and natural gas reserves in Western Canada with insignificant operations in the Western United States. The Company is headquartered in Canada at Suite 1100, 645 – 7th Avenue SW, Calgary, Alberta.

## 2. Basis of presentation

These interim condensed consolidated financial statements (the “financial statements”) have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Boards (“IASB”). These financial statements are condensed as they do not include all of the information required IFRS for annual financial statements and therefore should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2013. These financial statements are presented in Canadian dollars, the Company’s functional currency.

The financial statements have been prepared on a historical cost basis except for cash and cash equivalents, trade and other receivables, long-term receivable, bank debt, accounts payable and accrued liabilities, certain share-based payment transactions and risk management contracts, which are measured at fair value. All accounting policies and methods of computation followed in the preparation of these financial statements are consistent with those disclosed in the Company’s annual consolidated financial statements for the year ended December 31, 2013, except as noted in Note 3 "Changes in accounting policies" in these financial statements. There have been no changes in the application or use of estimates or judgments since December 31, 2013.

The financial statements include the accounts of the Company and its wholly owned subsidiaries, Strategic Oil & Gas Inc., Jed Oil (USA) Inc. and Strategic Transmission Ltd. All inter-entity transactions have been eliminated.

These financial statements were authorized for issue by the Board of Directors on May 13, 2014.

## 3. Changes in accounting policies

As of January 1, 2014, the Company adopted several new IFRS interpretations and amendments in accordance with the transitional provisions of each standard. A brief description of each new accounting policy and its impact on the Company's financial statements follows below:

- IAS 36 "Impairment of Assets" has been amended to reduce the circumstances in which the recoverable amount of cash generating units ("CGUs") is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The retrospective adoption of these amendments will only impact the Company's disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.

- IAS 39 "Financial Instruments: Recognition and Measurement" has been amended to clarify that there would be no requirement to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The retrospective adoption of the amendments does not have any impact on the Company's financial statements.
- IFRIC 21 "Levies" was developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation does not have any impact on the Company's financial statements.

**Future accounting policy changes**

In February 2014, the IASB tentatively decided to require an entity to apply IFRS 9 "Financial Instruments" for annual periods beginning on or after January 1, 2015. IFRS 9 is still available for early adoption. The full impact of the standard on the Company's financial statements will not be known until changes are finalized.

## 4. Exploration and evaluation ("E&E") assets

| **($000)** | **March 31, 2014** | December 31, 2013 |
|---|---|---|
| Opening balance | **$ 14,695** | $ 11,129 |
| E&E expenditures | **2,120** | 6,927 |
| E&E transfer to property, plant and equipment | **-** | (683) |
| Amortization | **(594)** | (2,678) |
| Closing balance | **$ 16,221** | $ 14,695 |

## 5. Property, plant, and equipment ("PPE")

| **($000)**<br>**Carrying value before accumulated depletion and depreciation** | **D&P assets** | **Office** | **Total** |
|---|---|---|---|
| As at December 31, 2013 | $ 332,280 | $ 1,106 | $ 333,386 |
| Additions | 36,334 | - | 36,334 |
| Dispositions | - | (5) | (5) |
| Change in decommissioning costs | 4,264 | - | 4,264 |
| **As at March 31, 2014** | **$ 372,878** | **$ 1,101** | **$ 373,979** |

| **($000)**<br>**Accumulated depletion and depreciation** | **D&P assets** | **Office** | **Total** |
|---|---|---|---|
| As at December 31, 2013 | $ 82,777 | $ 768 | $ 83,545 |
| Depreciation and depletion | 7,931 | 29 | 7,960 |
| Dispositions | - | (5) | (5) |
| **As at March 31, 2014** | **$ 90,708** | **$ 792** | **$ 91,500** |

| **($000)**<br>**Net carrying value** | **D&P assets** | **Office** | **Total** |
|---|---|---|---|
| As at December 31, 2013 | $ 249,503 | $ 338 | $ 249,841 |
| **As at March 31, 2014** | **$ 282,170** | **$ 309** | **$ 282,479** |

Substantially all of the Company's development and production ("D&P") assets are located within Canada. The cost of property, plant and equipment includes amounts in respect of the provision for decommissioning obligations. For the three month period ended March 31, 2014, $0.82 million of direct general and administrative expenses were capitalized to PPE ($0.80 million for the three month period ended March 31, 2013).

Future capital costs of $94.0 million (March 31, 2013 - $62.0 million) have been included in the depletable balance as at March 31, 2014. Major components account for $54.5 million (December 31, 2013 - $50.4 million) and are depreciated and tested for impairment separately.

## 6. Bank indebtedness

The Company has a $100 million credit facility (the "Facility") with a Canadian Chartered bank, comprised of an $80 million revolving operating loan and a $20 million acquisition/development demand loan. Amounts outstanding under the Facility are repayable on demand, and bear interest at a rate of 0.5% to 2.5% over the bank's prime lending rate for prime loans, or at bankers' acceptance rates plus a stamping fee ranging from 1.75% to 3.75%, depending on Strategic's debt to cash flow ratio. The Facility is secured by a general security agreement including a floating charge on all property, plant and equipment. The Facility contains a financial covenant that requires the Company to maintain an adjusted working capital ratio of not less than 1:1, but for the purpose of the calculation the unused portion of the revolving operating line is included in current assets and, the current portion of debt and risk management liabilities are both excluded from current liabilities. In addition to the Facility, the Company has $4.1 million letters of credit outstanding with third parties which reduce the amount of funds available under the Facility. The Facility has a renewal date of September 30, 2014. At March 31, 2014, the Company was in compliance with all covenants.

### 7. Decommissioning liabilities

Total future decommissioning liabilities are estimated based on the Company's net working interest in all wells and facilities, the estimated costs to abandon and reclaim the wells, pipelines and facilities and the estimated timing of the costs to be incurred in future periods. These costs are expected to be incurred over a range from 1 to 27 years, depending on the estimated reserve life. The undiscounted amount of the estimated costs at March 31, 2014 were $50.8 million (December 31, 2013 - $59.8 million). The estimated costs have been discounted at a risk free rate from 1.06% to 2.96% (December 31, 2013 – 1.13% to 3.20%) and an inflation rate of 2% (December 31, 2013 – 2%) was applied.

The following table reconciles the changes to the Company's decommissioning liabilities:

| ($000) | Note | Three months ended March 31, 2014 | Year ended December 31, 2013 |
|---|---|---|---|
| Balance beginning of the period | | $ 35,932 | $ 19,036 |
| Liabilities incurred during the period | | 339 | 875 |
| Acquisition of liabilities from asset acquisitions | | - | 14,579 |
| Expenditures on existing liabilities | | (1,281) | (762) |
| Change in estimated future cash flows | | 4,314 | 5,263 |
| Change in discount rate | | 2,362 | (3,928) |
| Accretion | | 275 | 869 |
| Balance end of the period | | $ 41,941 | $ 35,932 |

During the period, the change in estimated future cash flows includes $4.11 million of additional decommissioning liabilities which were recorded related to Steen River ($2.71 million) and Bistcho ($1.40 million) assets. The Steen River amounts are to be expended by the end of 2016. The Company has accrued $3.0 million for amounts due from its insurer for certain decommissioning liabilities. The Bistcho amounts are expected to be expended by the end of 2034.

### 8. Share capital

#### a) Authorized

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

#### b) Issued and outstanding

| ($000, except for share amounts) | Number of shares | Three months ended March 31, 2014 Amount |
|---|---|---|
| Balance beginning of the period | 260,600,646 | $ 197,970 |
| Exercise of options | 133,332 | 96 |
| Shares issued | 100,000,000 | 50,000 |
| Share issue costs | - | (666) |
| Balance end of the period | 360,733,978 | $ 247,400 |

| | | Year ended | |
|---|---|---|---|
| | | December 31, 2013 | |
| ($000, except for share amounts) | Number of shares | | Amount |
| Balance beginning of the year | 186,415,268 | $ | 122,999 |
| Exercise of options | 788,333 | | 1,132 |
| Shares issued | 73,397,045 | | 76,687 |
| Share issue costs | - | | (2,848) |
| Balance end of the year | 260,600,646 | $ | 197,970 |

On March 31, 2014, the Company issued 100.0 million common shares via a private placement at a price of $0.50 per common share for gross proceeds of $50.0 million (net proceeds of $49.3 million after transaction costs). Of the $50.0 million gross proceeds, $40 million (80 million common shares) was purchased by entities controlled by a director of the Company and an additional $0.29 million (575,200 common shares) were purchased by directors and officers of the Company.

### c) Weighted average shares

| **(000)** | **Three months ended March 31** | |
|---|---|---|
| | **2014** | 2013 |
| Weighted average shares (basic) | 261,785 | 189,724 |
| Weighted average shares (diluted) | 261,785 | 189,724 |

## 9. Stock-based compensation

For the three months ended March 31, 2014, the Company issued 60,000 common share options which will vest over three years. These options expire five years from the date of issue.

The outstanding number and weighted average exercise price of stock options are as follows:

| | **Number of options** | | **Weighted average Exercise Price** |
|---|---|---|---|
| **Balance at December 31, 2013** | **13,235,000** | $ | 0.98 |
| Issued | 60,000 | | 0.57 |
| Exercised | (133,332) | | 0.51 |
| Forfeited | (40,000) | | 1.16 |
| Expired | (205,000) | | 1.07 |
| **Balance at March 31, 2014** | **12,916,668** | $ | 0.98 |

The following table sets out the outstanding and exercisable options as at March 31, 2014:

| Outstanding Options | | | Exercisable Options | |
|---|---|---|---|---|
| **Number of Options** | **Weighted Average Exercise Price** | **Weighted Average Life Years** | **Number of Options** | **Weighted Average Exercise Price** |
| 1,218,335 | $ 0.45 | 0.48 | 1,191,672 | $ 0.45 |
| 1,213,333 | 0.68 | 0.87 | 1,160,001 | 0.68 |
| 755,000 | 0.84 | 3.94 | 425,000 | 0.84 |
| 1,895,000 | 0.90 | 2.89 | 1,895,000 | 0.90 |
| 415,000 | 0.99 | 3.71 | 208,336 | 0.96 |
| 2,060,000 | 1.10 | 1.77 | 2,053,334 | 1.10 |
| 4,975,000 | 1.16 | 3.74 | 3,093,332 | 1.16 |
| 10,000 | 1.19 | 4.15 | 3,334 | 1.19 |
| 75,000 | 1.24 | 4.03 | 25,000 | 1.24 |
| 300,000 | 1.31 | 3.81 | 200,000 | 1.31 |
| 12,916,668 | $ 0.98 | 2.74 | 10,255,009 | $ 0.95 |

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

| | Three months ended March 31 | |
|---|---|---|
| | **2014** | 2013 |
| Assumptions | | |
| Risk free interest rate (%) | **1.66** | 1.69 |
| Expected life (years) | **3.79** | 3.83 |
| Expected volatility (%) | **81.37** | 83.21 |
| Forfeiture rate (%) | **4.89** | 6.52 |
| Weighted average fair value of options granted ($) | **0.52** | 1.04 |

Forfeiture rate is calculated based on historical forfeiture data of the Company. The weighted average share price at the date of exercise for share options exercised during the three months ended March 31, 2014 was $0.51 (March 31, 2013 - $1.27).

## 10. Finance costs

| | Three months ended March 31 | |
|---|---|---|
| **($000)** | **2014** | 2013 |
| Interest expense | **$ 886** | $ 469 |
| Foreign exchange gain realized | **-** | (56) |
| Accretion of decommissioning liabilities | **275** | 190 |
| | **$ 1,161** | $ 603 |

### 11. Supplemental cash flow information

| | Three months ended March 31 | |
|---|---|---|
| **($000)** | **2014** | 2013 |
| Interest paid | **$ 886** | $ 469 |
| Total | **$ 886** | $ 469 |
| | | |
| Changes in non-cash working capital | | |
| Trade and other receivables (1) | **(2,920)** | (4,032) |
| Inventory | **48** | (536) |
| Inventory acquired | **-** | 490 |
| Accounts payable and accrued liabilities | **18,664** | 22,383 |
| | **$ 15,792** | $ 18,305 |
| Operating | **10,398** | (447) |
| Investing | **5,144** | 18,760 |
| | **$ 15,542** | $ 18,313 |

*(1): included in the trade and other receivables is $0.25 million of transfer to long-term receivable.*

### 12. Transactions with related parties

Legal fees in the amount of $0.11 million (March 31, 2013 - $0.22 million) were incurred with a legal firm of which a director is a partner, and these amounts included as general and administrative expenses or share issue costs. Software charges of $0.05 million (March 31, 2013 - $0.05 million) were charged to a company controlled by an officer. Trade and other receivables at March 31, 2014 include $0.32 million (December 31, 2013 - $nil) receivable from related parties. Accounts payable and accrued liabilities at March 31, 2014 include $0.09 million (December 31, 2013 - $0.31 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 Company and the related parties.

During the quarter ended March 31, 2014, the Company disposed of a working interest in a minor non-producing property to a company controlled by a director for consideration of $0.3 million, which was the deemed fair value of the property at the sale date. As the property had a $nil carrying value, a $0.3 million gain on disposition of property, plant and equipment was recorded in the period.

### 13. Financial instruments and financial risk management

The Company's financial instruments include cash and cash equivalents, trade and other receivables, long-term receivable, bank indebtedness, accounts payable and accrued liabilities, and risk management contracts. The carrying values of cash and cash equivalents, trade and other receivables, long-term receivable, accounts payable and accrued liabilities and bank indebtedness approximate their fair values due to their relatively short periods to maturity.

The Company is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

- Level 1 - quoted prices in active markets for identical assets or liabilities;

- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data.

The fair value of cash and cash equivalents bank indebtedness is measured at level 1. The fair value of risk management contracts is measured at level 2. The fair value of long-term receivable is measured at level 3.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. The following presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing commodity risks. Further quantitative disclosures are included throughout these financial statements.

**Commodity price risk**

Commodity price risk is the risk that the fair value of assets or liabilities or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar. The Company may, in certain circumstances, enter into forward oil or natural gas sales contracts to mitigate commodity price risk.

At March 31, 2014, the following risk management contracts were outstanding with a mark-to-market liability value of $12.0 million (March 31, 2013 - $1.05 million).

**Financial WTI crude oil contracts**

| Term | | **Contract Type** | **Volume (bbl/d)** | **Fixed Price ($/bbl)** | **Index** |
|---|---|---|---|---|---|
| 01-Jan-2014 | 31-Dec-2014 | Swap | 1,500 | CAD$92.00 | WTI - NYMEX |
| 01-Jan-2015 | 30-Jun-2015 | Swap | 750 | CAD$90.15 | WTI – NYMEX |
| 01-Jan-2015 | 31-Dec-2015 | Option (1) | 600 | CAD$90.00 | WTI – NYMEX |
| 01-Jul-2015 | 31-Dec-2015 | Option (1) | 250 | CAD$90.00 | WTI - NYMEX |

**Financial AECO gas contracts**

| Term | | **Contract Type** | **Volume (GJ/d)** | **Fixed Price ($/GJ)** | **Index** |
|---|---|---|---|---|---|
| 01-Jan-2014 | 31-Dec-2014 | Swap | 1,500 | 3.50 | AECO |
| 01-Jan-2014 | 31-Dec-2014 | Swap | 300 | 3.75 | AECO |
| 01-Apr-2014 | 31-Oct-2014 | Swap | 500 | 4.41 | AECO |

The Company does not apply hedge accounting to these risk management contracts and they are recorded as fair value with changes in fair value included in the condensed consolidated statement of income (loss). For the three months ended March 31, 2014, Strategic recorded unrealized losses on risk management contracts of $3.3 million (March 31, 2013 - $0.8 million).

The following table summarizes the fair value as at March 31, 2014 and the change in fair value for the three months ended March 31, 2014:

| ($000) | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Net derivative liabilities, beginning of period | $ | (8,757) | $ | (224) |
| Unrealized change in fair value | | (3,259) | | (8,533) |
| Net derivative liabilities, end of period | | (12,016) | | (8,757) |
| Derivative assets, end of period | | - | | - |
| Gross derivative liabilities, end of period | $ | (12,016) | $ | (8,757) |

Net realized losses on risk management contracts for the three months ended March 31, 2014 were $2.6 million (March 31, 2013 – $0.01 million).

## 14. Capital management

Strategic considers its capital structure to include shareholders' equity and working capital including bank indebtedness. The objectives of the Company are to maintain a strong balance sheet affording the Company financial flexibility to achieve goals of continued growth and access to capital. In order to maintain or adjust the capital structure, the Company may issue new common shares, issue new debt, or adjust exploration and development capital expenditures.

The Company monitors its capital program based on available funds, which is the combination of working capital (excluding risk management contracts) and remaining unused line of credit, as calculated below:

| ($000) | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Current assets | $ | 50,317 | $ | 9,685 |
| Accounts payable and accrued liabilities | | (47,121) | | (28,457) |
| Net working capital (deficit) | $ | 3,196 | $ | (18,772) |
| | | | | |
| Total debt facility *(Note 6)* | $ | 100,000 | $ | 100,000 |
| Amount drawn | | (75,000) | | (63,775) |
| Letters of credit | | (4,139) | | (4,139) |
| Unutilized portion of debt facility | | 20,861 | | 32,086 |
| **Net available funds** | $ | 24,057 | $ | 13,314 |