Strategic
OIL & GAS LTD.

Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2013 and 2012

Strategic Oil & Gas Ltd.

Condensed consolidated balance sheets (unaudited)

($000)	Note	**June 30, 2013**	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents		**$ 1,387**	$ 2,510
Inventory		**252**	179
Trade and other receivables		**11,569**	8,972
		13,208	11,661
Property, plant, and equipment, net	6	**203,141**	136,928
Exploration and evaluation assets	5	**16,360**	11,129
Total Assets		**$ 232,709**	$ 159,718
Liabilities			
Current Liabilities:			
Accounts payable and accrued liabilities		**$ 23,287**	$ 24,576
Bank indebtedness	7	**70,800**	34,125
Decommissioning liabilities	8	**-**	263
Risk management contracts	14	**2,742**	224
		$ 96,829	$ 59,188
Long term Liabilities:			
Risk management contracts	14	**$ 1,185**	-
Decommissioning liabilities	8	**28,957**	18,773
Total Liabilities		**$ 126,971**	$ 77,961
Shareholder's Equity			
Share capital	9	**152,280**	122,999
Contributed surplus		**8,367**	7,958
Deficit		**(54,909)**	(49,200)
		$ 105,738	$ 81,757
Total Liabilities and Shareholder's Equity		**$ 232,709**	$ 159,718

See accompanying notes to the Interim Condensed Consolidated Financial Statements

Commitments (Note 16)

Strategic Oil & Gas Ltd.

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

($000, except per share amounts)	Note	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Revenue					
Petroleum and natural gas sales		**$ 23,770**	$ 16,924	**$ 41,657**	$ 28,129
Royalties		**(4,805)**	(2,202)	**(8,973)**	(4,249)
		18,965	14,722	**32,684**	23,880
Unrealized loss on risk management contracts		**(2,876)**	-	**(3,704)**	-
Realized gain on risk management contracts		**341**	-	**393**	-
Other income		**20**	11	**90**	72
Revenues		**$ 16,450**	$ 14,733	**$ 29,463**	$ 23,952
Expenses					
Operating costs		**$ 6,917**	$ 2,973	**$ 13,166**	$ 6,109
Transportation		**1,707**	1,913	**2,956**	2,986
Exploration expenses	5	**-**	(73)	**-**	30
General and administrative		**1,498**	1,659	**3,403**	2,741
Finance costs	11	**739**	83	**1,342**	164
Stock-based compensation	10	**452**	52	**864**	1,000
Depletion, depreciation and amortization		**7,475**	6,890	**13,441**	11,350
		$ 18,788	$ 13,497	**$ 35,172**	$ 24,380
Operating income (loss) before taxes		**$ (2,338)**	$ 1,236	**$ (5,709)**	$ (428)
Deferred tax recovery		-	-	-	2,275
Net income (loss) and comprehensive income (loss) for the period		**$ (2,338)**	$ 1,236	**$ (5,709)**	$ 1,847
Net income (loss) per weighted average share					
Basic		**$ (0.01)**	$ 0.01	**$ (0.03)**	$ 0.01
Diluted		**$ (0.01)**	$ 0.01	**$ (0.03)**	$ 0.01
Weighted average shares outstanding - Basic	9(c)	**210,404**	187,092	**200,121**	187,053
Weighted average shares outstanding - Diluted	9(c)	**210,404**	187,550	**200,121**	187,898

See accompanying notes to the Interim Condensed Consolidated Financial Statements.
Certain comparative figures have been reclassified to conform to the current year's presentation.

Strategic Oil & Gas Ltd.

Condensed consolidated statements of changes in shareholder's equity (unaudited)

($000)	Note		Share Capital		Contributed Surplus		Deficit		Total equity
Balance December 31, 2012		**$**	**122,999**	**$**	**7,958**	**$**	**(49,200)**	**$**	**81,757**
Issue of shares			29,000		-		-		29,000
Share issue costs	9(b)		(851)		-		-		(851)
Stock options exercised	9(b)		1,132		(455)		-		677
Stock based compensation	9(b)		-		864		-		864
Net loss			-		-		(5,709)		(5,709)
Balance June 30, 2013		**$**	**152,280**	**$**	**8,367**	**$**	**(54,909)**	**$**	**105,738**

($000)	Note		Share Capital		Contributed Surplus		Deficit		Total equity
Balance Jan 1, 2012		**$**	**122,973**	**$**	**6,310**	**$**	**(44,294)**	**$**	**84,989**
Share issue costs	9(b)		(14)		-		-		(14)
Stock options and warrants exercised	9(b)		370		(156)		-		214
Stock based compensation	9(b)		-		1,000		-		1,000
Net income			-		-		1,847		1,847
Balance June 30, 2012		**$**	**123,329**	**$**	**7,154**	**$**	**(42,447)**	**$**	**88,036**

See accompanying notes to the Condensed Consolidated Financial Statements.

Strategic Oil & Gas Ltd.

Condensed consolidated statements of cash flows (unaudited)

		Three months ended June 30		Six months ended June 30	
($000)	**Note**	**2013**	2012	**2013**	2012
Operating activities:					
Net income (loss) for the period		**$ (2,338)**	$ 1,236	**$ (5,709)**	$ 1,847
Non-cash items:					
Depletion, depreciation, and amortization		**7,475**	6,890	**13,441**	11,350
Accretion of decommissioning liabilities		**207**	75	**397**	153
Stock-based compensation		**452**	52	**864**	1,000
Unrealized loss on risk management contracts		**2,876**	-	**3,704**	-
Exploration expense		**-**	(73)	**-**	30
Deferred tax recovery		**-**	-	**-**	(2,275)
Gain on acquisition		**-**	**-**	**(61)**	-
Other non-cash items		**-**	(6)	**(6)**	(11)
Funds from operations		**$ 8,672**	$ 8,174	**$ 12,630**	$ 12,094
Expenditures on decommissioning liabilities		**28**	-	**(645)**	-
Change in non-cash working capital		**(1,575)**	(1,594)	**(2,022)**	(3,378)
Cash provided by operating activities		**$ 7,125**	$ 6,580	**$ 9,963**	$ 8,716
Financing activities:					
Issue of common shares		**$ -**	$ -	**$ 29,000**	$ -
Increase in bank loan		**22,950**	-	**36,675**	-
Exercise of options		**-**	24	**677**	214
Share issuance costs		**-**	-	**(851)**	(14)
Cash provided by financing activities		**$ 22,950**	$ 24	**$ 65,501**	$ 200
Investing activities:					
Expenditures – property, plant and equipment		**$ (12,859)**	$ (1,885)	**$ (58,540)**	$ (31,937)
Expenditures – exploration and evaluation assets		**(1,923)**	(218)	**(6,510)**	(1,125)
Acquisitions		**-**	-	**(10,098)**	-
Changes in non-cash working capital		**(20,199)**	(16,080)	**(1,439)**	(6,301)
Cash used in investing activities		**$ (34,981)**	$ (18,183)	**$ (76,587)**	$ (39,363)
Decrease in cash and cash equivalents during the period		**$ (4,906)**	$ (11,579)	**$ (1,123)**	$ (30,447)
Cash and cash equivalents, beginning of the period		**6,293**	12,940	**2,510**	31,808
Cash and cash equivalents, end of the period		**$ 1,387**	$ 1,361	**$ 1,387**	$ 1,361

1. Corporate information

Strategic Oil & Gas Ltd. ("Strategic") 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 corporation, was acquired on March 10, 2009, and Steen River Oil & Gas Ltd. ("Steen River"), a private oil and gas exploration and production corporation, was acquired on December 22, 2010 by Strategic. Zinmac and Steen River were amalgamated with Strategic Oil & Gas Ltd. on April 1, 2012.

Strategic is a publicly traded corporation whose shares are 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 1100, 645 – 7th Avenue SW, Calgary, Alberta.

2. Basis of presentation

a) Statement of compliance:

These condensed interim 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 Corporation's audited consolidated financial statements for the year ended December 31, 2012.

All accounting policies and methods of computation followed in the preparation of these financial statements are consistent with those of the audited consolidated financial statements for the year ended December 31, 2012, except as noted in the Note 3 "New Accounting Policies" in these financial statements.

These financial statements were authorized for issue by the Board of Directors on August 14, 2013.

b) Basis of measurement:

The financial statements have been prepared on the historical cost basis except for cash and cash equivalents, certain stock based compensation transactions and risk management contracts, which are measured at fair value.

c) Functional and presentation currency:

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

3. New Accounting Policies

Future Accounting Policy Changes

The IASB has undertaken a three-phase project to replace IAS 39 “Financial Instruments: Recognition and Measurement” with IFRS 9 “Financial Instruments”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 is required to be adopted prospectively for annual periods beginning January 1, 2015, with earlier adoption permitted. The Corporation is currently evaluating the impact of this standard on the financial statements.

Changes in accounting policies

Effective January 1, 2013, the Corporation adopted the following IFRS pronouncements:

- IFRS 10 "Consolidated Financial Statements" supersedes IAS 27 "Consolidation and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities." This standard provides a single model to be applied in control analysis for all investees, including special purpose entities. The retrospective adoption of this standard does not have any impact on the Corporation's financial statements.

- IFRS 11 "Joint Arrangements" divides joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting. The retrospective adoption of this standard does not have any impact on the Corporation's financial statements.

- IFRS 12 "Disclosure of Interests in Other Entities" combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities. The retrospective adoption of the annual disclosure requirements of this standard does not have a material impact on the Corporation's annual financial statements.

- IFRS 13 Fair Value Measurement – IFRS 13 provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Corporation adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

- IAS 27 "Separate Financial Statements" has been amended as a result of changes to IFRS 10. The retrospective adoption of these amendments does not have any impact on the Corporation’s financial statements.

- IAS 28 "Investments in Associates and Joint Ventures" has been amended as a result of changes to IFRS 10 and IFRS 11. The retrospective adoption of these amendments does not have any impact on the Corporation's financial statements.

- The amendments to IAS 32 "Financial Instruments: Presentation" clarify the current requirements for offsetting financial instruments. The amendments to IFRS 7 "Financial Instruments: Disclosures" develop common disclosure requirements for financial assets and financial liabilities that are offset in the financial statements, or that are subject to enforceable master netting arrangements or similar agreements. The Corporation retrospectively adopted the amendments to both standards on January

1, 2013. The application of these amendments does not have any impact on the Corporation's financial statements, other than increasing the level of disclosures provided in the notes to the financial statements.

4. Acquisition

a) On February 28, 2013, the Corporation acquired oil and gas assets in northwest Alberta and the Northwest Territories ("Cameron Hills and Bistcho Assets") for a total cash consideration of $9.7 million.

($000)	**June 30, 2013**
Property, plant and equipment	**$ 23,874**
Inventory	**490**
Decommissioning obligations assumed	**(14,580)**
Gain on acquisition of assets	**(61)**
Purchase Price paid in cash	**$ 9,723**

b) On January 28, 2013, the Corporation acquired the remaining royalty interest in the Steen River asset in the amount of $0.375 million.

The purpose of the acquisition was to complement the Corporation's asset portfolio in Northern Alberta and the Northwest Territories, provide additional opportunities for improved operational efficiencies as well as increase drilling flexibility.

The Corporation has allocated the purchase price paid based on management's best estimates of fair values to the various assets acquired. The purchase price allocation to the fair values of the various assets acquired remains subject to final adjustments.

For the six months ended June 30, 2013, the Corporation recorded total revenues of $5.3 million and the net income of $0.70 million in respect of the acquired assets, from the date of acquisition.

The amount of revenue and net income (loss) of the Corporation inclusive of the acquisitions from January 1, 2013 to June 30, 2013, has not been disclosed as the production, revenue and expense information prior to the date of acquisition is not available and cannot be reliably estimated.

5. E&E assets

($000)	**June 30, 2013**	December 31, 2012
Opening balance	**$ 11,129**	$ 9,328
E&E expenditures	**6,510**	4,430
E&E expensed during the period	**-**	(30)
Amortization	**(1,279)**	(2,599)
Closing balance	**$ 16,360**	$ 11,129

During the six months ended June 30, 2013, the Corporation expensed $nil (2012 - $0.03 million) related to seismic expenditures on land which is not intended to be developed in the future.

6. Property, plant, and equipment

($000) Carrying value before accumulated depletion and depreciation	D&P assets	Office	Total
As at December 31, 2012	$ 193,163	$ 858	$ 194,021
Additions	58,293	247	58,540
Acquisitions	24,249	-	24,249
Change in decommissioning costs	(4,414)	-	(4,414)
As at June 30, 2013	**$ 271,291**	**$ 1,105**	**$ 272,396**

($000) Accumulated depletion and depreciation	D&P assets	Office	Total
As at December 31, 2012	$ 56,582	$ 511	$ 57,093
Depreciation and depletion	12,043	119	12,162
As at June 30, 2013	**$ 68,625**	**$ 630**	**$ 69,255**

$000) Net carrying value	D&P assets	Office	Total
As at December 31, 2012	$ 136,581	$ 347	$ 136,928
As at June 30, 2013	**$ 202,666**	**$ 475**	**$ 203,141**

Substantially all of the Corporation'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.

Future capital costs of $71.1 million (June 30, 2012 - $27.9 million) have been included in the depletable balance as at June 30, 2013. Depletion has been calculated using proved plus probable reserves. Major components account for $33.1 million (June 30, 2012 - $8.5 million) and are depreciated and tested for impairment separately.

7. Bank loan

The Corporation 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 lands. The Facility contains a financial covenant that requires the Corporation 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. The Facility has a renewal date of October 1, 2013.

At June 30, 2013, the Corporation's adjusted working capital ratio was 0.80, and therefore the financial covenant was not met. Prior to June 30, 2013, the Corporation had requested from the lender a draw of $14.0 million on the acquisition/development portion of the Facility. The request was approved subsequent to June 30, 2013 and $7.0 million has been received, with the remainder receivable upon confirmation of successful results from the first two wells of the summer 2013 drilling program. The Corporation has received from the lender a waiver of the covenant violation at June 30, 2013.

8. 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 future periods. These costs are expected to be incurred over a range from 1 to 42 years, depending on the estimated reserve life. The undiscounted amount of the estimated costs at June 30, 2013 were $50.5 million (December 31, 2012 - $25.1 million). The estimated costs have been discounted at a risk free rate from 1.23% to 2.96% (December 31, 2012 – 1.12% to 2.37%) and an inflation rate of 2% (December 31, 2012 – 2%) was applied.

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

($000)	Note	June 30, 2013	December 31, 2012
Balance beginning of the period		$ 19,036	$ 12,523
Liabilities incurred during the period		245	1,802
Acquisition of liabilities from asset acquisitions	4	14,580	4,356
Expenditures on existing liabilities		(645)	(202)
Change in estimated future cash flows		(1,394)	(113)
Change in discount rate		(3,262)	343
Accretion		397	327
Balance end of the period		$ 28,957	$ 19,036
Current		-	263
Long term		$ 28,957	$ 18,773

9. Share capital

a) Authorized

The Corporation 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	June 30, 2013 Amount
Balance beginning of the period	186,415,268	$ 122,999
Exercised of options	788,333	1,132
Shares issued	23,200,000	29,000
Share issue costs	-	(851)
Balance end of the period	210,403,601	$ 152,280

On March 20, 2013, the Corporation issued 23.2 million common shares via a private placement at a price of $1.25 per common share for gross proceeds of $29.0 million (net proceeds of $28.2 million after transaction costs). Of the $29.0 million gross proceeds, $18.9 million (15.2 million common shares) were acquired by entities that share a common director with the Corporation.

During the six months ended June 30, 2013, there were 788,333 stock options exercised for common shares of the Corporation, for total proceeds of $0.7 million.

c) Weighted average shares

(000)	Three months ended June :		Six months ended June 30	
	2013	2012	**2013**	2012
Weighted average shares (basic)	210,404	187,092	200,121	187,053
Weighted average shares (diluted)	210,404	187,550	200,121	187,898

10. 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 from immediate vesting to a five year vesting period.

For the six months ended June 30, 2013, the Corporation issued 1,180,000 common share options of which 955,000 will vest over three years and the remaining 225,000 will vest over five years.

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, 2012	**12,483,333**	$ 0.96
Issued	1,180,000	1.24
Exercised	(788,333)	0.86
Expired	(175,000)	-
Balance at June 30, 2013	**12,700,000**	$ 0.99

The following table sets out the outstanding and exercisable options as at June 30, 2013:

Outstanding Options					Exercisable Options	
Number of Options	Options price From	Options price To	Weighted Average Exercise Price	Weighted Average Life Years	Number of Options	Weighted Average Exercise Price
1,245,000	$ 0.25	0.59	$ 0.44	1.02	1,245,000	$ 0.44
1,250,000	0.60	0.79	0.68	1.49	1,183,332	0.68
2,570,000	0.80	0.99	0.89	3.79	2,223,333	0.89
2,895,000	1.00	1.18	1.11	3.07	2,358,347	1.10
4,740,000	$ 1.19	1.30	1.20	4.47	1,579,988	1.20
12,700,000			$ 0.99	3.38	8,590,000	$ 0.91

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:

	Six months ended June 30	
	2013	2012
Assumptions		
Risk free interest rate (%)	**1.67**	2.56
Expected life (years)	**3.81**	5.00
Expected volatility (%	**82.44**	104.23
Forfeiture rate (%)	**6.46**	8.17
Weighted average fair value of options granted ($)	**1.04**	0.89

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 six months ended June 30, 2013 was $1.27 (year ended December 31, 2012 - $0.93).

11. Finance costs

	Three months ended June 30		Six months ended June 30	
($000 except for boe amounts)	**2013**	2012	**2013**	2012
Interest expense	**$ 530**	$ 8	**$ 999**	$ 11
Foreign exchange gain realized	**2**	-	**(54)**	-
Accretion of decommissioning liabilities	**207**	75	**397**	153
	$ 739	$ 83	**$ 1,342**	$ 164

12. Supplemental cash flow information

($000)	Six months ended June 30 2013	2012
Interest paid	$ 999	$ 3
Taxes paid	-	-
Total	$ 999	$ 3
Changes in non-cash working capital		
Trade and other receivables	(2,597)	(2,097)
Inventory	(73)	-
Inventory acquired	490	-
Accounts payable and accrued liabilities *(1)*	(1,289)	(7,582)
	$ (3,469)	$ 9,679
Operating	(2,022)	(3,378)
Investing	(1,439)	6,301
	$ (3,461)	$ 9,679

(1) : included in the accounts payable and accrued liabilities is $.0008 (2012-$.0005) of non-cash lease inducements

13. Transactions with Related Parties

Legal fees in the amount of $0.30 million (June 30, 2012 - $0.17 million) were incurred to a legal firm of which a director is a partner, and are included as general and administrative expenses or share issue costs. Software charges of $0.10 million (June 30, 2012 - $0.06 million) were charged to a company controlled by an officer. Accounts payable and accrued liabilities at June 30, 2013 include $0.27 million (December 31, 2012 - $0.01 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.

14. Financial instruments and financial risk management

The Corporation's financial instruments include trade and other receivables, bank debt, accounts payable and accrued liabilities, other long term debt and commodity contracts. The carrying values of accounts receivable, accounts payable and accrued liabilities and bank debt approximate their fair values due to their relatively short periods to maturity.

The Corporation 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 bank debt is measured at level 1. The fair value of risk management contracts is measured at level 2.

The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Corporation's activities. The Corporation 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 Corporation's exposure to each of the above risks and the Corporation's objectives, policies and processes for measuring and managing commodity risks. Further quantitative disclosures are included throughout these financial statements.

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 the appropriate reserves based credit facility to provide access to capital as needed.

Market risk

Market risk consists of interest rate risk, currency risk and commodity price risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Corporation may use both financial derivatives and physical delivery sales contracts to manage market risks.

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 Corporation may, in certain circumstances, enter into forward oil or natural gas sales contracts to mitigate commodity price risk.

At June 30, 2013, the following risk management contracts were outstanding with a mark-to-market liability value of $3.93 million (June 30, 2012 - $0.22).

Financial WTI Crude Oil Contracts

Term		Contract Type	Volume (bbl/d)	Fixed Price ($/bbl)	Index
01-Jan-2013	31-Dec-2013	Swap (2)	200	US$90.00	WTI - NYMEX
01-Jul-2013	31-Dec-2013	Swap	300	CAD$97.98	WTI - NYMEX
01-Feb-2013	31-Dec-2013	Swap	500	CAD$97.89	WTI - NYMEX
01-Feb-2013	31-Dec-2013	Swap (2)	500	US$99.00	WTI - NYMEX
01-May-2013	31-Dec-2013	Swap	350	CAD$94.03	WTI - NYMEX
01-May-2013	31-Dec-2013	Swap	200	CAD$93.00	WTI - NYMEX
01-Jul-2013	31-Dec-2013	Swap	500	CAD$94.00	WTI - NYMEX
Average for Apr-Jun 2013 (2)			1,868	CAD$97.69	
Average for Jul-Dec 2013 (2)			2,550	CAD$96.41	
01-Jan-2014	31-Dec-2014	Swap	1,500	CAD$92.00	WTI - NYMEX
01-Jan-2014	31-Dec-2014	Option (1)	500	US$99.00	WTI - NYMEX
01-Jan-2015	30-Jun-2015	Swap	750	CAD$90.15	WTI - NYMEX

(1) *The counterparty may elect to convert this option to a swap contract with the Corporation at the fixed price indicated.*

(2) *The contract settles against the average WTI price at NYMEX, converted to Canadian dollars per barrel based on the average exchange rate for the contract period. In calculating the average Canadian dollar swap price, US dollar contracts are converted to Canadian dollars at an average exchange rate of CAD$1.02 = US$1.00*.

The Corporation 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 and six months ended June 30, 2013, Strategic recorded unrealized losses on risk management contracts of $2.87 million (June 30 2012 - $nil) and $3.73 million (June 30, 2012 - $nil).

Subsequent to June 30, 2013, the Corporation entered into a risk management contract to increase its oil price on existing contracts for 1,850 bbl/d for September to December 2013 by $4.53/bbl, as follows:

Volume (bbl/d)	**Old Price ($/bbl)**	**New Price ($/bbl)**	**Index**
300	CAD$97.98	CAD$102.51	WTI - NYMEX
500	CAD$97.89	CAD$102.42	WTI - NYMEX
350	CAD$94.03	CAD$98.56	WTI - NYMEX
200	CAD$93.00	CAD$97.53	WTI - NYMEX
500	CAD$94.00	CAD$98.53	WTI - NYMEX

In exchange for the price increase the counterparty received an option for 600 bbl/d for 2015 at CAD$90.00, which the counterparty may elect to convert to a swap with the Corporation at the price indicated. The expiry date of the option is December 31, 2014.

The following table summarizes the fair value as at June 30, 2013 and the change in fair value for the six months ended June 30, 2013:

($000)	**June 30, 2013**	December 31, 2012
Net derivative liabilities, beginning of period	**$ (224)**	$ -
Unrealized change in fair value	**(3,704)**	(224)
Net derivative liabilities, end of period	**(3,927)**	(224)
Derivative assets, end of period	**496**	380
Gross derivative liabilities, end of period	**$ (4,423)**	$ (604)

Net realized gains on risk management contracts for the three and six months ended June 30, 2013 were $0.34 million (June 30, 2012 - $nil) and $0.39 million (June 30, 2012 - $nil) respectively.

Offsetting financial assets and liabilities

The Corporation's risk management contracts are subject to master agreements that create a legally enforceable right to offset by counterparty the related financial assets and financial liabilities simultaneously. The following table summarizes the gross asset and liability positions of the Corporation's risk management contracts that are offset on the balance sheet as at June 30, 2013 and December 31, 2012.

($000)			June 30, 2013			December 31, 2012
	Gross Amount	**Amount Offset**	**Net Amount**	Gross Amount	Amount Offset	Net Amount
Current Asset	**$ 496**	**$ (496)**	**$ -**	$ 380	$ (380)	$ -
Long term asset	**-**	**-**	**-**	-	-	-
Current Liability	**(3,238)**	**496**	**(2,742)**	(604)	380	(224)
Long term liability	**(1,185)**	**-**	**(1,185)**	-	-	-
Net Position	**$ (3,927)**	**$ -**	**$ (3,927)**	$ (224)	$ -	$ (224)

15. Capital management

Strategic considers its capital structure to include shareholder's 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 (excluding risk management contracts) and remaining unused line of credit, as calculated below:

($000)	**June 30, 2013**	December 31, 2012
Current assets	**13,208**	11,661
Accounts payable and accrued liabilities	**(23,287)**	(24,839)
Net working capital deficit	**(10,079)**	(13,178)
Total line of credit	**100,000**	48,500
Amount drawn	**(70,800)**	(34,125)
Authorized Letters of Guarantee	**(3,857)**	(20)
Unutilized line of credit	**25,343**	14,355
Net available funds	**15,264**	1,177

The Corporation's exploration and development activities are conducted primarily during colder weather, as ground conditions provide improved access to lease and more efficient execution of its capital expenditure activities. Significant expenditures are made during these periods and the related benefit is realized in future periods.

The increase in the net debt level can be attributed primarily to the significant capital expenditure including the acquisition during the period ended June 30, 2013 relative to the incremental operating income received to date.

16. Commitments

The Corporation has lease agreements for office space and office equipment resulting in the following commitments:

Year ended		**($000)**
2013	$	286
2014	$	338
2015	$	311
2016	$	10
	$	945