Strategic
OIL & GAS LTD.

Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

Management's Report

Management's Responsibility on Consolidated Financial Statements

Management is responsible for the preparation of the accompanying consolidated financial statements. The consolidated financial statements have been prepared in accordance with the accounting policies detailed in the notes thereto. In Management's opinion, the consolidated financial statements are in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, have been prepared within acceptable limits of materiality, and have utilized supportable, reasonable estimates.

To ensure the integrity of our consolidated financial statements, we carefully select and train qualified personnel. We also ensure our organizational structure provides appropriate delegation of authority and division of responsibilities. Our policies and procedures are communicated throughout the organization including a written ethics and integrity policy that applies to all employees including the chief executive officer and chief financial officer.

The Board of Directors approves the consolidated financial statements. Their financial statement related responsibilities are fulfilled mainly through the Audit Committee. The Audit Committee is composed of a majority of independent directors, all with financial expertise. The Audit Committee meets regularly with Management and the external auditors to discuss reporting and control issues and ensures each party is properly discharging its responsibilities. The Audit Committee also considers the independence of the external auditors and reviews their fees.

Deloitte LLP ("Deloitte"), an independent firm of chartered accountants, was to audit the consolidated financial statements of the Corporation and to provide an independent professional opinion. Deloitte's audit opinion is attached to these consolidated financial statements.

"Signed"

Gurpreet Sawhney, President & Chief Executive Officer

"Signed"

Aaron Thompson, Chief Financial Officer

March 31, 2014

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Strategic Oil & Gas Ltd.:

We have audited the accompanying consolidated financial statements of Strategic Oil & Gas Ltd. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012 and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years ended December 31, 2013 and December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Strategic Oil & Gas Ltd. and its subsidiaries as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years ended December 31, 2013 and December 31, 2012, in accordance with International Financial Reporting Standards.

(Signed) "Deloitte LLP"

Chartered Accountants

March 31, 2014
Calgary, Canada

Strategic Oil & Gas Ltd.

Consolidated balance sheets

(CDN$000)	Note	December 31, 2013	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents		**$ 226**	$ 2,510
Inventory		**379**	179
Trade and other receivables		**9,080**	8,972
		9,685	11,661
Property, plant, and equipment, net	4,6	**249,841**	136,928
Exploration and evaluation assets	5	**14,695**	11,129
Total Assets		**$ 274,221**	$ 159,718
Liabilities			
Current Liabilities:			
Accounts payable and accrued liabilities		**$ 28,457**	$ 24,576
Bank indebtedness	9	**63,775**	34,125
Deferred price premium on flow-through shares	8	**1,619**	-
Decommissioning liabilities	10	**-**	263
Risk management contracts	17	**7,276**	224
		$ 101,127	$ 59,188
Long term Liabilities:			
Risk management contracts	17	**1,481**	-
Decommissioning liabilities	4,10	**35,932**	18,773
Total Liabilities		**$ 138,540**	$ 77,961
Shareholders' Equity			
Share capital	11	**197,970**	122,999
Contributed surplus		**9,227**	7,958
Deficit		**(71,516)**	(49,200)
		$ 135,681	$ 81,757
Total Liabilities and Shareholders' Equity		**$ 274,221**	$ 159,718

See accompanying notes to the consolidated financial statements

Commitments (Note 20)
Subsequent events (Note 21)

Approved by the Board of Directors

Signed: *"Thomas Claugus"* Signed: *"Rodger Hawkins"*

Strategic Oil & Gas Ltd.

Consolidated statements of loss and comprehensive loss

Year ended December 31 **(CDN$000, except per share amounts)**	**Note**		**2013**		2012
Revenue					
Petroleum and natural gas sales		**$**	**79,945**	$	56,512
Royalties			**(17,317)**		(9,677)
			62,628		46,835
Unrealized loss on risk management contracts			**(8,533)**		(224)
Net realized loss on risk management contracts			**(2,621)**		-
Other income			**94**		370
Revenues		**$**	**51,568**	$	46,981
Expenses					
Operating costs		**$**	**28,670**	$	13,581
Transportation			**5,449**		5,774
Exploration expenses	5		**-**		30
General and administrative			**6,200**		7,434
Finance costs	13		**3,409**		430
Stock-based compensation	12		**1,724**		1,935
Depletion, depreciation and amortization			**28,033**		20,837
Impairment of property, plant and equipment	7		**1,098**		4,023
		$	**74,583**	$	54,044
Operating loss before taxes		**$**	**(23,015)**	$	(7,063)
Deferred tax recovery	14		**699**		2,275
Net loss and comprehensive loss		**$**	**(22,316)**	$	(4,788)
Net loss per weighted average share					
Basic		**$**	**(0.10)**	$	(0.03)
Diluted		**$**	**(0.10)**	$	(0.03)
Weighted average shares outstanding - Basic	11(c)		**217,603,874**		186,800,318
Weighted average shares outstanding - Diluted	11(c)		**217,603,874**		186,800,318

See accompanying notes to the consolidated financial statements
Certain comparative figures have been reclassified to conform to the current year’s presentation.

Strategic Oil & Gas Ltd.

Consolidated statements of changes in shareholders' equity

For the years ended December 31, 2013 and 2012

(CDN$000)	Note	Share Capital	Contributed Surplus	Deficit	Total equity
Balance Jan 1, 2013		**$ 122,999**	**$ 7,958**	**$ (49,200)**	**$ 81,757**
Shares issued	11(b)	76,687	-	-	76,687
Share issue costs	11(b)	(2,848)	-	-	(2,848)
Stock options exercised	11(b)	1,132	(455)	-	677
Stock-based compensation	12	-	1,724	-	1,724
Net loss		-	-	(22,316)	(22,316)
Balance December 31, 2013		**$ 197,970**	**$ 9,227**	**$ (71,516)**	**$ 135,681**

(CDN$000)	Note	Share Capital	Contributed Surplus	Deficit	Total equity
Balance Jan 1, 2012		**$ 122,973**	**$ 6,310**	**$ (44,294)**	**$ 84,989**
Share issue costs	11(b)	(14)	-	-	(14)
Share repurchases	11(b)	(632)	-	(118)	(750)
Stock options exercised	11(b)	672	(287)	-	385
Stock-based compensation	12	-	1,935	-	1,935
Net loss		-	-	(4,788)	(4,788)
Balance December 31, 2012		**$ 122,999**	**$ 7,958**	**$ (49,200)**	**$ 81,757**

See accompanying notes to the consolidated financial statements

Strategic Oil & Gas Ltd.

Consolidated statements of cash flows

Year Ended December 31 **(CDN$000)**	**Note**		**2013**		2012
Operating activities:					
Net loss for the year		**$**	**(22,316)**	$	(4,788)
Non-cash items:					
Depletion, depreciation, and amortization			**28,033**		20,838
Accretion of decommissioning liabilities			**869**		327
Stock-based compensation			**1,724**		1,935
Unrealized loss on risk management contracts			**8,533**		224
Impairment of property, plant, and equipment			**1,098**		4,023
Exploration expense			**-**		30
Deferred tax recovery			**(699)**		(2,275)
Gain on acquisition	4		**(61)**		-
Gain on sale of securities			**-**		(272)
Other non-cash items			**(19)**		(21)
Funds from operations		**$**	**17,162**	$	20,021
Expenditures on decommissioning liabilities	10	**$**	**(762)**	$	(202)
Changes in non-working capital	15		**2,093**		(34)
Cash provided by operating activities		**$**	**18,493**	$	19,785
Financing activities:					
Increase in bank loan		**$**	**29,650**	$	34,125
Issue of common shares			**62,005**		-
Issue of flow-through shares			**17,000**		-
Exercise of options			**677**		385
Repurchase of common shares			**-**		(750)
Share issuance costs	11(b)		**(2,848)**		(14)
Cash provided by financing activities		**$**	**106,484**	$	33,746
Investing activities:					
Expenditures – property, plant and equipment		**$**	**(112,224)**	$	(58,182)
Expenditures – exploration and evaluation assets			**(6,927)**		(4,430)
Acquisitions	4		**(10,011)**		(23,696)
Sale of securities			**-**		272
Changes in non-cash working capital	15		**1,901**		3,207
Cash used in investing activities		**$**	**(127,261)**	$	(82,829)
(Decrease) in cash and cash equivalents during the year		**$**	**(2,284)**	$	(29,298)
Cash and cash equivalents, beginning of the year			**2,510**		31,808
Cash and cash equivalents, end of the year		**$**	**226**	$	2,510

See accompanying notes to the consolidated financial statements

1. Corporate information

Strategic Oil & Gas Ltd. ("Strategic") is a company registered and domiciled in Alberta. On April 1, 2012, ZinMac Inc. and Steen River Oil & Gas Ltd., two wholly-owned subsidiaries of Strategic, were amalgamated with Strategic. 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 (see note 4). Strategic Transmission Ltd. has nominal assets and no liabilities.

Strategic is a publicly traded corporation whose shares are listed on the TSX Venture Exchange. Strategic, 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 insignificant 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued and outstanding as of December 31, 2013, and were prepared using accounting policies that are compliant with these standards.

These consolidated financial statements were approved by the Corporation's Board of Directors on March 31, 2014.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for cash and cash equivalents, trade and other receivables, bank debt, accounts payable and accrued liabilities, certain share-based payment transactions and derivative financial instruments, which are measured at fair value.

c) Functional and presentation currency

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

d) Estimates and judgments

The timely preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses for the period. Actual results may differ from these estimates. Information regarding the significant judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty are outlined below.

The Corporation uses estimates of oil and natural gas reserves in the calculation of depreciation and depletion and also for value in use and fair value less costs to sell ("FVLCS") calculations of non-financial assets. By their nature, the estimates of reserves, including estimates of price, costs, discount rates and the related future cash flows, are subject to measurement uncertainty.

The recoverability of the carrying value of oil and gas properties is assessed at the cash generating unit ("CGU") level. Determination of the properties and other assets to be included within a particular CGU is based on management's judgment with respect to the integration between assets, shared infrastructure and cash flows. Changes in the assets comprising each CGU impacts recoverable amounts used in impairment assessments and could have a material impact on net income. At December 31, 2012 Strategic had 10 CGUs which were Steen/Marlow, Lessard, Larne, Bistcho, Taber, Conrad, Cheddarville, Maxhamish, Antelope and miscellaneous individual gas wells. Based on a review of the operation, primarily the gathering facilities to take product to market, management has re-evaluated the classification of its assets into CGUs. At December 31, 2013 Strategic conducts its operation through 4 CGUs, namely Steen/Marlow, Bistcho, other Canadian wells and other USA wells.

The transfer of exploration and evaluation assets to property, plant and equipment is based on estimated reserves used in the determination of an asset's technical feasibility and commercial viability.

Amounts recorded for decommissioning obligations and the associated accretion are calculated based on estimates of asset retirement costs, timing of expenditures, risk free interest rates, site remediation and related cash flows.

Derivative financial instruments are measured at fair value which is subject to management uncertainty, due to the use of future oil and natural gas prices and the volatility in these prices.

The determination of fair value of stock-based compensation is based on estimates of future consideration using an option pricing model which requires assumptions such as volatility, risk free interest rate, forfeiture rate, and expected option life.

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

3. Significant accounting policies

a) Basis of consolidation

Subsidiaries
The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries as follows:

Subsidiary	Jurisdiction	Nature of operations
Strategic Oil & Gas Ltd.	Alberta	Parent company
Strategic Oil & Gas, Inc.	Wyoming, USA	US oil and gas exploration and operations
Jed Oil (USA), Inc.	Wyoming, USA	US holding company
Strategic Transmission Ltd.	Northwest Territories	Holding company

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date that such control ceases. Control exists when the Corporation has the power to govern the relevant activities of an entity so as to obtain benefits from those activities. The consolidated financial statements of the subsidiaries are prepared using consistent accounting policies and for the same reporting period as the parent. All inter-company balances and transactions are eliminated on consolidation.

Jointly operated assets
Interests in jointly operated assets are accounted for using the proportionate consolidated method, so the Corporation has included its proportionate share of revenues, expenses, assets, and liabilities in its accounts.

b) Financial instruments

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

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

Subsequent measurement depends upon the classification of the financial instrument as one of:
-Fair value through profit or loss
-Loans and receivables
-Available for sale
-Held to maturity
-Other financial liabilities

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

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

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

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

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

Financial instrument per balance sheet	Classification	Subsequent measurement
Cash and cash equivalents	Fair value through profit or loss	Fair value
Trade and other receivables	Loans and receivables	Amortized cost using effective interest method
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost using effective interest method
Bank indebtedness	Other financial liabilities	Amortized cost using effective interest method
Risk management contracts	Fair value through profit or loss	Fair value

c) Business combinations

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

d) Exploration and evaluation assets

The Corporation accounts for exploration and evaluation of petroleum and natural gas property ("E&E") costs in accordance with IFRS 6 "Exploration for and Evaluation of Mineral Resources". Costs incurred are classified as E&E costs when they relate to exploring and evaluating a property for which the corporation has the license or right to explore and extract resources.

Pre-license costs are recognized in the statement of comprehensive loss as incurred. E&E costs, including the costs of acquiring undeveloped land, geological and geophysical costs, sampling and appraisals and related drilling costs are initially capitalized until the drilling of the well is complete and the results have been evaluated. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved or probable reserves are determined to exist. If proved and/or probable reserves are found, the accumulated costs are tested for impairment and the carrying value net of any impairment is transferred to property, plant and equipment. Undeveloped land costs are amortized over the initial lease term; other E&E costs are not amortized.

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

e) Property, plant and equipment

Development and production costs
The Corporation recognized property, plant and equipment (“PPE”) assets at cost less accumulated depletion, depreciation and impairment losses.

Items of property, plant and equipment, which include oil and natural gas development and production assets, costs incurred in developing proved and/or probable reserves and bringing on or enhancing production from such reserves are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. The cost of development and production assets includes: transfers from E&E assets, which generally includes the cost of land and seismic upon determination of technical feasibility and commercial viability; the cost to drill, complete and tie-in the wells; facility costs; the cost of recognizing provisions for future restoration and decommissioning; property acquisitions; and directly attributable overheads. Repairs and maintenance and operational costs that do not extend or enhance the recoverable reserves are charged to profit or loss when incurred.

The costs of planned major overhaul, turnaround activities and equipment replacement that maintain PPE and benefit future years of operations are capitalized. Recurring planned maintenance activities performed on shorter intervals are expensed as operating costs. Replacements outside of a major overhaul or turnaround are capitalized when it is probable that future economic benefits will flow to the Corporation and the associated carrying amount of the replaced asset (or part of a replaced asset) is derecognized.

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

When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components). The carrying amount of any replaced or sold component is derecognized.

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

Depletion and depreciation
The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Natural gas reserves and production are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil, reflecting the approximate energy content. Where significant parts of an item of property, plant, and equipment have different lives than the oil and gas reserves, they are accounted for as separate items (major components) and depreciated over the life of the component.

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

Gas and oil infrastructure	Unit of Production
Development and production assets	Unit of Production
Corporate assets	Straight Line - 5 years
Major components	Straight Line - 20 years
Major overhaul and turnaround activities	Straight Line – 2-3 years, depending on the plant

f) Impairment

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

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

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

All impairment losses are recognized in the statement of loss and comprehensive loss.

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

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

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

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

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

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

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

g) Provisions

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

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

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

h) Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

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

i) Flow-through common shares

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

j) Earnings per share

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

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

k) Finance income and expenses

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

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

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

l) Revenue recognition

Revenue from the sale of oil and natural gas is recognized when the significant risks and rewards of ownership is transferred, which is generally when title passes to the customer in accordance with the terms of the sales contract. Revenue from the production of oil and natural gas form properties in which the Corporation has an interest with other producers is recognized on a net working interest basis.

m) Inventory

Inventory of crude oil, consisting of production for which title has not yet transferred to the buyer, is valued at the lower of cost or net realizable value, based on per barrel weighted average cost of production.

n) New accounting policies

Future Accounting Policy Changes
In May 2013, the IASB issued amendments to IAS 36 "Impairment of Assets" which reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The amendments are required to be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. These amendments will be applied by the Corporation on January 1, 2014 and the adoption will only impact the Corporation's disclosures in the notes to the consolidated financial statements in periods when an impairment loss or impairment reversal is recognized.

In May 2013, the IASB issued IFRIC 21 "Levies," which was developed by the IFRS Interpretations Committee ("IFRIC"). IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that no liability should be recognized before the specified minimum threshold to trigger that levy is reached. IFRIC 21 is required to be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. IFRIC 21 will be applied by the Corporation on January 1, 2014 and the adoption does not have an impact on the Corporation's accounting for production and similar taxes, which do not meet the definition of an income tax in IAS 12 "Income Taxes."

The IASB has undertaken a three-phase project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments." In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. 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.

In November 2013, the IASB issued the third phase of IFRS 9 which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporters to better reflect risk management activities in the consolidated financial statements and provide more opportunities to apply hedge accounting. The Corporation does not employ hedge accounting for its risk management contracts currently in place. In July 2013, the IASB deferred the mandatory effective date of IFRS 9 and has left this date open pending the finalization of the impairment and classification and measurement requirements. IFRS 9 is still available for early adoption. The full impact of the standard on the Corporation's consolidated financial statements will not be known until the project is complete.

Changes in Accounting Policies

As of January 1, 2013, the Corporation adopted several new IFRS standards and amendments in accordance with the transitional provisions of each standard. A brief description of each new standard and its impact on the Corporation's consolidated financial statements follows below:

IFRS 10 "Consolidated Financial Statements"

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

IFRS 11 "Joint Arrangements"

This standard 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 did not have any impact on the Corporation's consolidated financial statements.

IFRS 12 "Disclosure of Interests in Other Entities"

This standard 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 did not have a material impact on the Corporation’s consolidated financial statements.

IFRS 13 "Fair Value Measurement"

This standard defines fair value, establishes a framework for measuring fair value, and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The adoption of this standard requires the revaluation of certain derivative financial liabilities on the Corporation’s consolidated balance sheets to reflect an appropriate amount of risk of non-performance by the Corporation. The standard also requires additional annual fair value disclosures, as well as additional interim disclosures, as per IAS 34. The prospective adoption of this standard does not have a material impact on the Corporation's consolidated financial statements.

IAS 28 "Investments in Associates and Joint Ventures"

This standard has been amended as a result of changes to IFRS 10 and IFRS 11. The retrospective adoption of these amendments did not have any impact on the Corporation's consolidated financial statements.

IFRS 7 “Financial Instruments: Disclosures” and IAS 32 "Financial Instruments: Presentation"

The amendments to this standard 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 consolidated 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 did not have any impact on the Corporation's consolidated financial statements, other than increasing the level of disclosures provided in the notes to the consolidated 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)		December 31, 2013
Property, plant and equipment	$	**23,874**
Inventory		**403**
Decommissioning obligations assumed		**(14,579)**
Gain on acquisition of assets		**(61)**
Purchase price paid in cash	$	**9,637**

For the year ended December 31, 2013, the Corporation recorded total revenues of $11.5 million and the net income of $0.60 million in respect of the acquired assets, from the date of acquisition.

b) On January 28, 2013, the Corporation acquired a royalty interest at Steen River for cash consideration of $0.4 million.

c) On December 22, 2012, Strategic acquired oil and gas assets in northwest Alberta ("Steen River Assets") for total cash consideration of $23.7 million. The transaction was accounted for using the acquisition method of accounting for business combinations using management's best estimates of fair values of assets and liabilities acquired as follows:

($000)		December 31, 2012
Property, plant and equipment	$	28,052
Decommissioning obligations assumed		(4,356)
Purchase price paid in cash	$	23,696

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.

For the year ended December 31, 2012, the Corporation recorded total revenues of $0.1 million and the net income of $0.02 million in respect of the acquired assets, from the date of acquisition.

5. E&E assets

($000)		December 31, 2013		December 31, 2012
Opening balance	$	**11,129**	$	9,328
E&E expenditures		**6,927**		4,430
E&E transfer to PPE		**(683)**		-
E&E expense		-		(30)
Amortization		**(2,678)**		(2,599)
Closing balance	$	**14,695**	$	11,129

In 2013 the Corporation expensed $nil (2012 - $0.03 million) related to seismic expenditures on land which is not intended to be further explored 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	111,976	248	112,224
E&E transfer	683	-	683
Acquisitions	24,249	-	24,249
Change in decommissioning costs	2,209	-	2,209
As at December 31, 2013	**$ 332,280**	**$ 1,106**	**$ 333,386**

($000) Accumulated depreciation and depletion	D&P assets	Office	Total
As at December 31, 2012	$ 56,582	$ 511	$ 57,093
Depreciation and depletion	25,097	257	25,354
Impairment	1,098	-	1,098
As at December 31, 2013	**$ 82,777**	**$ 768**	**$ 83,545**

($000) Net carrying value	D&P assets	Office	Total
As at December 31, 2013	**$ 249,503**	**$ 338**	**$ 249,841**

($000) Carrying value before accumulated depletion and depreciation	D&P assets	Office	Total
As at December 31, 2011	$ 105,145	$ 611	$ 105,756
Additions	57,935	247	58,1822
Acquisition of Steen River assets (note 4)	28,052	-	28,052
Change in decommissioning costs	2,031	-	2,031
As at December 31, 2012	**$ 193,163**	**$ 858**	**$ 194,021**

($000) Accumulated depreciation and depletion	D&P assets	Office	Total
As at December 31, 2011	$ 34,463	$ 369	$ 34,832
Depreciation and depletion	18,096	142	18,238
Impairment	4,023	-	4,023
As at December 30, 2012	**$ 56,582**	**$ 511**	**$ 57,093**

($000) Net carrying value	D&P assets	Office	Total
As at December 31, 2012	$ 136,581	$ 347	$ 136,928

Substantially all of the Corporation's development and production ("D&P") assets are located within Canada. The cost of PPE includes amounts in respect of the provision for decommissioning obligations. For the year ended December 31, 2013, $2.2 million of direct general and administrative expenses were capitalized to PPE ($0.82 million for the year ended December 31, 2012).

Future capital costs of $97.5 million (December 31, 2012 - $49.9 million) have been included in the depletable balance as at December 31, 2013. Depletion has been calculated using proved plus probable reserves. Major components account for $50.4 million (December 31, 2012 - $16.7 million) and are depreciated and tested for impairment separately.

7. Impairment

The Corporation's development and production assets are aggregated into CGUs based on their ability to generate largely independent cash flows.

The recoverable amount was determined based on the fair value less costs to sell method for reserves as well as resources estimated by management to be realized based on planned future drilling locations not considered in the reserve report. The key assumptions used in determining the recoverable amount include the future cash flows using reserve and resource forecasts, forecasted commodity prices, discount rates, inflation rates and future development costs estimated for reserves by independent reserve engineers and by internal estimates based on historical experiences and trends for planned future drilling locations.

The values assigned to the future cash flows, forecasted commodity prices and future development costs were obtained from Strategic's year-end reserve report, which was evaluated or audited by its independent reserve engineers. These values were based on future cash flows of proved plus probable reserves discounted at a pre-tax rate of 10 percent (2012 – 10 percent). The future cash flows also consider, when appropriate, past capital activities, observable market conditions, comparable transactions and future development costs primarily based on anticipated development capital programs.

The value of resources incremental to the reserve report was obtained from internal analysis completed by management most notably through the review of its drilling program results and future drilling plans outlined in its current five-year plan. This was further supported by contingent resource studies that were compiled by independent reserve engineers. Based on this internal analysis, Strategic identified and risked potential drilling locations that were not assigned any proved plus probable reserves. The value of these additional drilling locations was included in the recoverable amount, based on the net present value of proved undeveloped locations within the same resource play from the Company's most recent annual reserve report. A discount rate of 15 percent was applied to determine an estimate of the present value of the future cash flows from these future drilling locations.

For the year ended December 31, 2013, the Corporation recognized a PPE impairment of $1.1 million related to the Other Canadian CGU, compared to $4.0 million in 2012 related to the same CGU. Impairment on this CGU arose due to a downward revision of proved and probable reserves at the CGU level.

The impairment test at December 31, 2013 was based the following forward commodity price estimates:

	Natural Gas	**Crude Oil**	
	AECO Gas Price (Cdn$/mmbtu)	Edmonton Par Price (Cdn$/bbl)	West Texas Intermediate (Us$/bbl)
2014	4.00	95.00	95.00
2015	4.25	96.50	95.00
2016	4.55	97.50	95.00
2017	4.75	98.00	95.00
2018	5.00	98.30	95.30
2019	5.25	99.30	96.60
2020	5.35	101.60	98.50
2021	5.45	103.60	100.50
2022	5.55	105.70	102.50
2023	5.65	107.90	104.60
Thereafter	+2.0%/yr	+2.0%/yr	+2.0%/yr

A change in discount rate of 1.0% would have resulted in an additional impairment of $0.005 million for the year ended December 31, 2013 (2012-$0.1 million), while a five percent decrease in the forward commodity price estimate would result in an additional impairment of approximately $0.09 million (2012 - $1.0 million).

8. Deferred price premium on flow-through shares

($000's)	December 31, 2013	December 31, 2012
Balance, beginning of the year	**$ -**	$ 2,275
Additional deferred price premiums on Flow-through shares	**2,318**	-
Flow-through renunciation	**(699)**	(2,275)
Balance, end of the year	**$ 1,619**	$ -

In 2013, the Corporation issued 15,454,545 common shares on a flow through basis with an estimated aggregate flow through share premium of $2.3 million. In December 2011, the Corporation issued 9,100,000 common shares on a flow through basis with an estimated aggregate flow through premium of $2.3 million. In 2013, a portion of the tax value of the flow through issues was renounced to shareholders and $0.7 million (2012 - $2.3 million) was recognized as a deferred tax recovery in comprehensive loss.

9. 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. In addition to the Facility, the Corporation 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 December 31, 2013, the Corporation's adjusted working capital ratio was 0.77, and therefore the financial covenant was not met. Subsequent to year end, the Corporation has received from the lender a waiver of the covenant violation at December 31, 2013.

10. 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 up to 27 years, depending on the estimated reserve life. The undiscounted amount of the estimated costs at December 31, 2013 were $59.8 million (December 31, 2012 - $25.1 million). The estimated costs have been discounted at a risk free rate from 1.13% to 3.20% (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)	December 31, 2013		December 31, 2012	
Balance beginning of the year	$	19,036	$	12,523
Liabilities incurred during the year		875		1,802
Acquisition of liabilities		14,579		4,356
Expenditures on existing liabilities		(762)		(202)
Change in estimated future cash flows		5,263		(113)
Change in discount rate		(3,928)		343
Accretion		869		327
Balance end of the year	$	35,932	$	19,036
Current at December 31, 2013		-		263
Long term at December 31, 2013	$	35,932	$	18,773

11. Share capital

a) Authorized

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

b) Issued and outstanding

($000)	# of Shares		Amount
Balance as at January 1, 2012	186,562,068	$	122,973
Exercise of warrants and options	812,000	$	672
Shares repurchases	(958,800)		(632)
Share issue costs	-		(14)
Balance as at December 31, 2012	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 as at December 31, 2013	**260,600,646**	**$**	**197,970**

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 are controlled by a director with the Corporation.

On September 26, 2013, the Corporation issued 20.2 million common shares via a private placement with an entity that shares a common director with the Corporation at a price of $0.95 per common share for gross proceeds of $19.2 million.

On October 7, 2013, the Corporation completed a bought deal financing, resulting in the issuance of 14,547,500 common shares at a price of $0.95 per common shares and 15,454,545 flow-through shares at $1.10 per share for total gross proceeds of $31 million (share issue costs $1.9 million). As at December 31, 2013, the Corporation had spent $5.1 million on qualified exploration and development expenditures to meet the flow through commitment. The remaining committed expenditure is $11.9 million which will be spent in 2014.

On August 16, 2012, the Corporation announced a Notice of Intention to purchase its common shares from time to time in accordance with the normal course issuer bid procedures under Canadian securities laws. Pursuant to the issuer bid, the Corporation may purchase for cancellation up to 9,355,000 of its common shares, representing 5% of the issued and outstanding common shares of the Corporation, during the 12-month period commencing August 20, 2012.

In 2012, the Corporation repurchased and cancelled 958,800 common shares at a weighted average price of $0.78 per common share for a total of $0.75 million, including directly related expenses. Deficit was increased by $0.12 million representing the excess of the purchase price of the common shares over their average carrying value. There were no share repurchases in 2013.

c) Weighted average shares

	December 31, 2013	December 31, 2012
Weighted average shares (basic)	**217,603,874**	186,800,318
Weighted average shares (diluted)	**217,603,874**	186,800,318

12. 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 three year vesting period. During December 2013, the Corporation issued 1,755,000 common share options of which 1,530,000 will vest over three years and the remaining 225,000 will vest over 5 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 - January 1, 2012	**6,780,333**	$ 0.81
Issued	7,385,000	1.06
Exercised	(812,000)	0.47
Expired	(870,000)	1.05
Balance at December 31, 2012	**12,483,333**	$ 0.96
Issued	1,755,000	1.14
Exercised	(788,333)	0.86
Expired	(215,000)	1.27
Balance at December 31, 2013	**13,235,000**	$ 0.98

The following table sets out the outstanding and exercisable options as at December 31, 2013:

Outstanding Options				Exercisable Options	
Number of Options	Weighted Average Exercise Price	Weighted Average Life Years		Number of Options	Weighted Average Exercise Price
1,245,001	$ 0.44	0.52		1,245,001	$ 0.44
1,259,999	0.68	0.99		1,219,999	0.68
755,000	0.84	4.18		425,000	0.84
1,950,000	0.90	3.09		1,950,000	0.90
415,000	0.99	3.96		208,336	0.96
2,145,000	1.10	1.96		2,138,334	1.10
5,070,000	1.16	3.96		3,101,667	1.16
10,000	1.19	4.40		3,334	1.19
85,000	1.24	4.27		28,334	1.24
300,000	1.31	4.06		100,000	1.31
13,235,000	**$ 0.98**	**2.92**		**10,420,005**	**$ 0.94**

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:

	December 31, 2013	December 31, 2012
Assumptions		
Risk free interest rate (%)	**1.66**	1.72
Expected life (years)	**3.79**	3.87
Expected volatility (%)	**81.46**	84.40
Forfeiture rate (%)	**4.24**	7.38
Weighted average fair value of options granted ($)	**0.52**	0.52

The Corporation recorded compensation expense of $1.7 million (2012 – $1.9 million) relating to the stock option plan for the years ended December 31, 2013 and 2012, respectively. Forfeiture rate is calculated based on historical forfeiture data of the Corporation. The weighted average share price at the date of exercise for stock options exercised in 2013 was $1.27 (2012 - $0.93).

13. Finance costs

	Year ended December 31	
($000)	**2013**	2012
Interest expense	**$ 2,595**	$ 103
Foreign exchange gain realized	**(55)**	-
Accretion of decommissioning liabilities	**869**	327
	$ 3,409	$ 430

14. Income Taxes

The following table reconciles the expected income tax expense (recovery) at the Canadian federal and provincial statutory income tax rates to the amounts recognized in the consolidated statements of loss and comprehensive loss for the years ended December 31, 2013 and 2012.

($000)	**2013**	2012
Loss before income taxes	**(23,015)**	(7,063)
Statutory income tax rates	**25.0%**	25.0%
Expected income tax recovery	**(5,754)**	(1,766)
Non-deductible expenses	**6**	14
Non-taxable portion of capital gain on sale of investment	**-**	(34)
Tax effect of flow-through shares	**583**	228
Change in estimates	**170**	1,600
Change in deferred tax benefits realized	**3,864**	(2,797)
Stock-based compensation	**432**	480
Income tax recovery	**(699)**	(2,275)

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

($000)	**December 31, 2013**	December 31, 2012
Deferred income tax assets (liabilities)		
Non-capital loss carry forwards	**44,617**	32,092
Share issuance costs	**963**	758
Oil and gas properties - US	**1,810**	1,810
Oil and gas properties - Canada	**(14,001)**	337
Decommissioning liabilities	**8,985**	4,896
Risk management contract	**2,189**	56
Other	**113**	119
Total gross deferred income tax assets	**44,676**	40,068
Deferred tax benefits not recognized	**(44,676)**	(40,068)
Net deferred tax asset	**-**	-

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

As at December 31, 2013, the Corporation has non-capital losses of approximately $178.5 million (2012 - $128.9 million) which may be carried forward to apply against future years' taxable income for Canadian tax purposes, subject to final determination by taxation authorities and expiring as follows:

	($000)
2024	**1,164**
2025	**31,843**
2026	**27,676**
2027	**18,058**
2028	**14,559**
2029	**5,863**
2030	**22,527**
2031	**1,443**
2032	**20,743**
2033	**34,594**
	178,469

15. Supplemental cash flow information

($000)		**December 31, 2013**		December 31, 2012
Interest paid	**$**	**1,618**	$	103
Taxes paid		**-**		-
Total	**$**	**1,618**	$	103
Changes in non-cash working capital				
Trade and other receivables	**$**	**(107)**	$	(3,337)
Inventory		**(200)**		(179)
Inventory acquired		**403**		-
Accounts payable and accrued liabilities *(1)*		**3,898**		6,689
	$	**3,994**	$	3,173
Operating		**2,093**		(34)
Investing		**1,901**		3,207
	$	**3,994**	$	3,173

(1): Included in the accounts payable and accrued liabilities is $nil (2012 - $19) of non-cash lease inducement.

16. Transactions with related parties

Legal fees in the amount of $0.45 million (2012 - $0.28 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 $0.20 million (2012 - $0.12 million) were incurred to a software firm which is controlled by an officer of the Corporation. Accounts payable and accrued liabilities at 2013 include $0.31 million (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. Transaction amounts reflect fair values. See note 11 for shares purchased by related party.

Transactions with key management personnel

The Corporation has determined that the key management personnel of the Corporation consists of its officers and directors. Short-term benefits are comprised of salaries and directors fees, annual bonuses, and other benefits. In addition, the Corporation provides share-based compensation to its key management personnel under the long-term incentive plans and the officers participate in the Corporation's share option plan. The compensation included in general and administrative expenses relating to key management personnel for the year is as follows:

($000)	**2013**	2012
Salaries, wages and other short-term benefits	**$ 2,059**	$ 3,321
Stock-based compensation	**860**	1,631
Total compensation	**$ 2,919**	$ 4,952

17. Financial instruments and financial risk management

The Corporation's financial instruments include cash and cash equivalents, trade and other receivables, bank debt, accounts payable and accrued liabilities, certain share-based payment transactions and derivative financial instrument 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 consolidated financial statements.

a) 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 December 31, 2013, the following risk management contracts were outstanding with a mark-to-market liability value of $8.76 million (December 31, 2012 - $0.22 million).

Financial WTI Crude Oil Contracts

Term		Contract Type	Volume (bbl/d)	Fixed Price (CAD$/bbl)	Index
01-Jan-2014	31-Dec-2014	Swap	500	92.00	WTI - NYMEX
01-Jan-2014	31-Dec-2014	Swap	1,000	92.00	WTI – NYMEX
01-Jan-2015	30-Jun-2015	Swap	750	90.15	WTI - NYMEX
01-Jan-2015	31-Dec-2015	Option (1)	600	90.00	WTI - NYMEX
01-Jul-2015	31-Dec-2015	Option (1)	250	90.00	WTI - NYMEX

(1) Counterparty has an option to convert into a swap at the fixed price indicated. The 600 bbl/d option expires on the last business day before the term begins, while the 250 bbl/d option expires monthly during the contract term.

For the year ended December 31, 2013, if oil prices changed by $1.00 per bbl, net income would have changed by $0.7 million.

Financial AECO Gas Contracts

Term		Contract Type	Volume (GJ/d)	Fixed Price (CAD$/GJ)	Index
01-Jan-2014	31-Dec-2014	Swap	1,500	3.50	AECO

Subsequent to December 31, 2013, the Corporation entered into additional financial risk management contracts for 300 GJ/d of gas sales at an AECO price of $3.75/GJ for February to December 2014 and for 500 GJ/d of gas sales at an AECO price of $4.41/GJ for April to October 2014.

For the year ended December 31, 2013, if natural gas prices changed by $0.25 per Mcf, net income would have changed by $0.4 million.

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 consolidated statement of loss. For the year ended December 31, 2013, Strategic recorded unrealized losses on risk management contracts of $8.53 million (December 31, 2012 - $0.22 million).

The following table summarizes the fair value as at December 31, 2013 and the change in fair value for the year:

($000)	**December 31, 2013**	December 31, 2012
Net derivative liabilities, beginning of year	**$ (224)**	$ -
Unrealized change in fair value	**(8,533)**	(224)
Net derivative liabilities, end of year	**(8,757)**	(224)
Derivative assets, end of year	**-**	380
Gross derivative liabilities, end of year	**$ (8,757)**	$ (604)

Net realized losses on risk management contracts for the year ended December 31, 2013 was $2.62 million (December 31, 2012 - $nil).

Interest rate risk

The Corporation is exposed to interest rate risk as changes in interest rates may affect future cash flows. The Corporation's primary debt facility has a floating interest rate that will fluctuate based on prevailing market conditions. Cash flows are sensitive to changes in interest rates on this instrument. As at December 31, 2013, if interest rates had increased by 1% with all other variables held constant, net income would have decreased by $1.06 million (2012 – $0.03 million).

Foreign exchange risk

Prices for oil are determined in global markets and generally denominated in United States dollars. Natural gas and oil prices obtained by the Corporation are influenced by both US and Canadian demand and the corresponding North American supply, and recently, by imports of liquefied natural gas. The exchange rate effect cannot be quantified but generally an increase in the value of the $CDN as compared to the $US will reduce the prices received by the Corporation for its petroleum and natural gas sales. As at December 31, 2013 and 2012, the Corporation had no contracts in place to mitigate foreign exchange risk.

b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

Typically the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. To achieve this objective, the Corporation prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Corporation utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditure. The Corporation also attempts to match its payment cycle with collection of oil and natural gas revenue on the 25th of each month. In addition, the Corporation maintains the appropriate reserves based credit facility to provide access capital as needed. It is the Corporation's intent to renew the facility annually (*see note 9*).

c) Credit risk

Credit risk is the risk that a customer or counterparty will fail to perform an obligation or fail to pay amounts due causing a financial loss. The Corporation's trade and other receivables are with customers and joint venture partners in the oil and gas industry and are subject to normal credit risks. Currently over 93% (2012 – 93%) of the Corporation's oil and natural gas production is being sold through marketing companies and revenues are collected on the 25th day of the month following the month of production. The majority of the remaining accounts receivable are from joint venture partners which are collected between two and four months after the production month. In order to mitigate collection risk, the Corporation assesses the credit worthiness of customers and counter parties by assessing the financial strength of the customers and by routinely monitoring credit risk exposures.

Collection of the remaining balances can be dependent upon industry factors such as commodity prices, risk of unsuccessful drilling and partner disputes. Otherwise, the Corporation does not typically obtain collateral from joint venture partners, and relies upon industry standard legal remedies for collection.

The Corporation's most significant customer, a Canadian oil and natural gas marketer, accounts for 60% of the trade receivables at December 31, 2013 (December 31, 2012: 52%).

The total accounts receivable 90 days past due amounted to $0.68 million at December 31, 2013 (2012 - $1.5 million). The allowance for doubtful accounts at December 31, 2013 was $nil (2012 - $nil).

d) 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 December 31, 2013 and December 31, 2012.

($000)					**December 31, 2013**
	Gross Amount	**Amount Offset**	**Net Amount Prior to Credit Risk Adjustment**	**Credit Risk Adjustment**	**Net Amount**
Current asset	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Long term asset	**-**	**-**	**-**	**-**	**-**
Current liability	**(7,276)**	**-**	**(7,276)**	**-**	**(7,276)**
Long term liability	**(1,481)**	**-**	**(1,481)**	**-**	**(1,481)**
Net position	**$ (8,757)**	**$ -**	**$ (8,757)**	**$ -**	**$ (8,757)**

($000)					December 31, 2012
	Gross Amount	Amount Offset	Net Amount Prior to Credit Risk Adjustment	Credit Risk Adjustment	Net Amount
Current asset	$ 380	$ (380)	$ -	$ -	$ -
Long term asset	-	-	-	-	-
Current liability	(604)	380	(224)	-	(224)
Long term liability	-	-	-	-	-
Net position	$ (224)	$ -	$ (224)	$ -	$ (224)

18. Capital management

Strategic 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 (excluding deferred price premium on flow-through shares and risk management contracts) and remaining unused line of credit, as calculated below:

($000)		**December 31, 2013**		December 31, 2012
Current assets	**$**	**9,685**	$	11,661
Accounts payable and accrued liabilities, excluding bank loan		**(28,457)**		(25,063)
Net working capital (deficit)	**$**	**(18,772)**	$	(13,402)
Total debt facility *(Note 9)*	**$**	**100,000**	$	48,500
Amount drawn		**(63,775)**		(34,125)
Letters of credit		**(4,139)**		(20)
Unutilized portion of debt facility		**32,086**		14,355
Net available funds	**$**	**13,314**	$	953

The Corporation is currently projecting its 2014 capital program to be approximately $80 million, and expects to fund this program by a combination of cash flow from operations, drawing on the Corporation's credit facility, equity issuances (See Note 21) and other financing sources.

19. Supplemental disclosure

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

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

($000)		**2013**		2012
Operating	**$**	**2,802**	$	906
General and administrative		**4,809**		3,702
Total employee compensation costs	**$**	**7,611**	$	4,608

20. Commitments

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

Year ended		**($000's)**
2014	$	338
2015		311
2016		10
	$	659

21. Subsequent events

On March 12, 2014 Strategic entered into an agreement with a syndicate of agents with respect to a private placement of 100,000,000 common shares of the Company at a price of $0.50 per common share, for gross proceeds of $50.0 million. A total of 80,000,000 common shares were purchased by entities controlled by a director of the Corporation. The private placement closed in two tranches on March 24, 2014 and on March 31, 2014. Proceeds were used to reduce bank debt incurred in completing an intensive winter capital program at Steen River.