



Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2014 and 2013

Strategic Oil & Gas Ltd.

Interim condensed consolidated balance sheets (unaudited)

(\$000)	Note	June 30, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents		\$ 6,693	\$ 226
Inventory		410	379
Trade and other receivables		10,675	9,080
		17,778	9,685
Long-term receivable	8	3,001	-
Property, plant, and equipment, net	4, 6	287,367	249,841
Exploration and evaluation assets	5	15,876	14,695
Total Assets		\$ 324,022	\$ 274,221
Liabilities			
Current Liabilities:			
Accounts payable and accrued liabilities		\$ 21,085	\$ 28,457
Bank indebtedness	7	75,000	63,775
Deferred price premium on flow-through shares		266	1,619
Risk management contracts	14	10,580	7,276
		\$ 106,931	\$ 101,127
Long term Liabilities:			
Risk management contracts	14	\$ 773	1,481
Decommissioning liabilities	8	43,283	35,932
Total Liabilities		\$ 150,987	\$ 138,540
Shareholders' Equity			
Share capital	9	247,474	197,970
Contributed surplus		9,456	9,227
Deficit		(83,895)	(71,516)
		\$ 173,035	\$ 135,681
Total Liabilities and Shareholders' Equity		\$ 324,022	\$ 274,221

See accompanying notes to the Interim Condensed Consolidated Financial Statements

Strategic Oil & Gas Ltd.

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

(\$000, except per share amounts)	Note	Three months ended June 30,		Six months ended June 30,	
		2014	2013	2014	2013
Revenue					
Petroleum and natural gas sales		\$ 23,723	\$ 23,770	\$ 45,483	\$ 41,657
Royalties		(5,235)	(4,805)	(9,722)	(8,973)
Revenues, net of royalties					
Unrealized gain (loss) on risk management contracts	14	663	(2,875)	(2,597)	(3,704)
Net realized (loss) gain on risk management contracts	14	(2,918)	341	(5,482)	393
		\$ 16,233	\$ 16,431	\$ 27,682	\$ 29,373
Expenses					
Production		\$ 9,392	\$ 8,604	\$ 20,539	\$ 16,032
General and administrative		1,905	1,498	3,594	3,403
Finance	11	1,011	738	2,172	1,342
Stock-based compensation	10	124	452	295	864
Depletion, depreciation and amortization		8,562	7,475	17,116	13,441
Gain on disposal of property, plant and equipment	4, 13	(1,960)	-	(2,304)	-
		\$ 19,034	\$ 18,767	\$ 41,412	\$ 35,082
Operating loss before taxes					
		\$ (2,801)	\$ (2,336)	\$ (13,730)	\$ (5,709)
Deferred tax recovery		84	-	1,351	-
Net loss and comprehensive loss for the period					
		\$ (2,717)	\$ (2,336)	\$ (12,379)	\$ (5,709)
Net loss per weighted average share					
Basic		\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ (0.03)
Diluted		\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ (0.03)
Weighted average shares outstanding - Basic	9(c)	360,959	210,404	311,646	200,121
Weighted average shares outstanding - Diluted	9(c)	360,959	210,404	311,646	200,121

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

Strategic Oil & Gas Ltd.

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

(\$000)	Note	Share Capital	Contributed Surplus	Deficit	Total equity
Balance January 1, 2014		\$ 197,970	\$ 9,227	\$ (71,516)	\$ 135,681
Issue of shares		50,000	-	-	50,000
Share issue costs	9(b)	(701)	-	-	(701)
Stock options exercised	9(b)	205	(66)	-	139
Stock based compensation		-	295	-	295
Net loss		-	-	(12,379)	(12,379)
Balance June 30, 2014		\$ 247,474	\$ 9,456	\$ (83,895)	\$ 173,035

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

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

Strategic Oil & Gas Ltd.

Interim condensed consolidated statements of cash flow (unaudited)

(\$000)	Note	Three months ended June 30		Six months ended June 30	
		2014	2013	2014	2013
Operating activities:					
Net loss for the period		\$ (2,717)	\$ (2,336)	\$ (12,379)	\$ (5,709)
Non-cash items:					
Depletion, depreciation, and amortization		8,562	7,475	17,116	13,441
Accretion of decommissioning liabilities		279	207	552	397
Stock-based compensation		124	452	295	864
Unrealized loss on risk management contracts	14	(663)	2,875	2,597	3,704
Deferred tax recovery		(84)	-	(1,351)	-
Gain on acquisition		-	-	-	(61)
Gain on disposal of property, plant and equipment	4, 13	(1,960)	-	(2,304)	-
Other non-cash items		-	(1)	-	(6)
Funds from operations		\$ 3,541	\$ 8,672	\$ 4,526	\$ 12,629
Expenditures on decommissioning liabilities		(20)	28	(1,301)	(645)
Change in non-cash working capital	12	(9,148)	(1,576)	1,251	(2,022)
Cash provided by operating activities		\$ (5,627)	\$ 7,124	\$ 4,476	\$ 9,962
Financing activities:					
Issue of common shares		\$ -	\$ -	\$ 50,000	\$ 29,000
Increase in bank loan		-	22,950	11,225	36,675
Exercise of options		71	-	139	677
Share issuance costs	9	(35)	-	(701)	(851)
Cash provided by financing activities		\$ 36	\$ 22,950	\$ 60,663	\$ 65,501
Investing activities:					
Expenditures – property, plant and equipment		\$ (13,223)	\$ (12,861)	\$ (49,557)	\$ (58,540)
Expenditures – exploration and evaluation assets		(317)	(1,924)	(2,436)	(6,510)
Acquisitions		-	-	-	(10,098)
Proceeds on disposal of property, plant and equipment	4, 13	3,478	-	3,821	-
Changes in non-cash working capital	12	(15,642)	(20,195)	(10,500)	(1,439)
Cash used in investing activities		\$ (25,704)	\$ (34,980)	\$ (58,672)	\$ (76,587)
(Decrease) increase in cash and cash equivalents during the period		\$ (31,295)	\$ (4,906)	\$ 6,467	\$ (1,123)
Cash and cash equivalents, beginning of the period		37,988	6,293	226	2,510
Cash and cash equivalents, end of the period		\$ 6,693	\$ 1,387	\$ 6,693	\$ 1,387

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)
June 30, 2014 and 2013

1. Corporate information

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

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

2. Basis of presentation

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

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

During the period, the Company combined its operating and transportation expense to present them as production expense. All comparative periods reflect this reclassification.

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

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

The accompanying interim condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. See note 15 for additional information.

Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)
June 30, 2014 and 2013

3. Changes in accounting policies

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

- IAS 36 "Impairment of Assets" has been amended to reduce the circumstances in which the recoverable amount of cash generating units ("CGUs") is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The retrospective adoption of these amendments will only impact the Company's disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.
- IAS 39 "Financial Instruments: Recognition and Measurement" has been amended to clarify that there would be no requirement to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The retrospective adoption of the amendments does not have any impact on the Company's financial statements.
- IFRIC 21 "Levies" was developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation did not have any impact on the Company's financial statements.

Future accounting policy changes

In February 2014, the IASB tentatively decided to require an entity to apply IFRS 9 "Financial Instruments" for annual periods beginning on or after January 1, 2018. IFRS 9 is still available for early adoption. The full impact of the standard on the Company's financial statements will not be known until changes are finalized.

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. The Company is currently evaluating the impact of the standard on its financial statements.

4. Disposition

On June 16, 2014, the Company sold certain oil and gas assets in central Alberta for a total cash consideration of \$3.48 million.

(\$000)	June 30, 2014
Property, plant and equipment net book value	\$ 1,688
Decommissioning obligations on assets sold	(170)
Gain on sale of assets	1,960
Purchase price paid in cash	\$ 3,478

Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)
June 30, 2014 and 2013

5. Exploration and evaluation ("E&E") assets

(\$000)	June 30, 2014	December 31, 2013
Opening balance	\$ 14,695	\$ 11,129
E&E expenditures	2,436	6,927
E&E transfer to property, plant and equipment	-	(683)
Amortization	(1,255)	(2,678)
Closing balance	\$ 15,876	\$ 14,695

6. Property, plant, and equipment ("PPE")

(\$000)			
Carrying value before accumulated depletion and depreciation	D&P assets	Office	Total
As at December 31, 2013	\$ 332,280	\$ 1,106	\$ 333,386
Additions	49,557	-	49,557
Dispositions (Note 4)	(5,639)	(5)	(5,644)
Change in decommissioning costs	5,429	-	5,429
As at June 30, 2014	\$ 381,627	\$ 1,101	\$ 382,728

(\$000)			
Accumulated depletion and depreciation	D&P assets	Office	Total
As at December 31, 2013	\$ 82,777	\$ 768	\$ 83,545
Depreciation and depletion	15,776	85	15,861
Dispositions (Note 4)	(4,040)	(5)	(4,045)
As at June 30, 2014	\$ 94,513	\$ 848	\$ 95,361

(\$000)			
Net carrying value	D&P assets	Office	Total
As at December 31, 2013	\$ 249,503	\$ 338	\$ 249,841
As at June 30, 2014	\$ 287,114	\$ 253	\$ 287,367

Substantially all of the Company's development and production ("D&P") assets are located within Canada. The cost of property, plant and equipment includes amounts in respect of the provision for decommissioning obligations. For the six month period ended June 30, 2014, \$1.23 million of direct general and administrative expenses were capitalized to PPE (\$1.20 million for the six month period ended June 30, 2013).

Future capital costs of \$139.9 million (June 30, 2013 - \$71.1 million) have been included in the depletable balance as at June 30, 2014. Major components account for \$54.5 million (June 30, 2013 - \$33.1 million) and are depreciated and tested for impairment separately.

Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)
June 30, 2014 and 2013

7. Bank indebtedness

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

At June 30, 2014, the Company's adjusted working capital ratio was 0.88, and therefore the financial covenant was not met. Subsequent to period end, the Company has received from the lender a waiver of the covenant violation at June 30, 2014.

8. Decommissioning liabilities

Total future decommissioning liabilities are estimated based on the Company's net working interest in all wells and facilities, the estimated costs to abandon and reclaim the wells, pipelines and facilities and the estimated timing of the costs to be incurred in future periods. These costs are expected to be incurred over a range from 1 to 27 years, depending on the estimated reserve life. The undiscounted amount of the estimated costs at June 30, 2014 were \$72.4 million (December 31, 2013 - \$59.8 million). The estimated costs have been discounted at a risk free rate from 1.11% to 2.82% (December 31, 2013 - 1.13% to 3.20%) and an inflation rate of 2% (December 31, 2013 - 2%) was applied.

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

(\$000)	Six months ended	Year ended
	June 30, 2014	December 31, 2013
Balance beginning of the period	\$ 35,932	\$ 19,036
Liabilities incurred during the period	448	875
Acquisition of liabilities from asset acquisitions	-	14,579
Disposition of liabilities from asset disposition	(170)	-
Expenditures on existing liabilities	(1,301)	(762)
Change in estimated future cash flows	4,350	5,263
Change in discount rate	3,472	(3,928)
Accretion	552	869
Balance end of the period	\$ 43,283	\$ 35,932

During the six months ended June 30, 2014, the change in estimated future cash flows includes \$4.11 million of additional decommissioning liabilities which were recorded related to Steen River (\$2.71 million) and Bistcho (\$1.40 million) assets. The Steen River amounts are to be expended by the end of 2016. The Company has accrued \$3.0 million for amounts due from its insurer for certain decommissioning liabilities. The Bistcho amounts are expected to be expended by the end of 2034.

Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)
June 30, 2014 and 2013

9. Share capital

a) Authorized

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

b) Issued and outstanding

(\$000, except for share amounts)	Number of shares	Six months ended June 30, 2014	
			Amount
Balance beginning of the period	260,600,646	\$	197,970
Exercise of options	400,000		205
Shares issued	100,000,000		50,000
Share issue costs	-		(701)
Balance end of the period	361,000,646	\$	247,474

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

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

c) Weighted average shares

(000)	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Weighted average shares (basic)	360,959	210,404	311,646	200,121
Weighted average shares (diluted)	360,959	210,404	311,646	200,121

Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)
June 30, 2014 and 2013

10. Stock-based compensation

For the six months ended June 30, 2014, the Company issued 120,000 common share options which will vest over three years. These options expire five years from the date of issue.

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

	Number of options	Weighted average Exercise Price	
Balance at December 31, 2013	13,235,000	\$	0.98
Issued	120,000		0.54
Exercised	(400,000)		0.35
Forfeited	(383,332)		0.97
Expired	(845,000)		0.76
Balance at June 30, 2014	11,726,668	\$	1.01

The following table sets out the outstanding and exercisable options as at June 30, 2014:

	Outstanding Options			Exercisable Options	
	Number of Options	Weighted Average Exercise Price	Weighted Average Life Years	Number of Options	Weighted Average Exercise Price
	738,334	\$ 0.50	0.80	678,338	\$ 0.49
	880,000	0.65	0.83	826,668	0.65
	605,000	0.84	3.52	425,000	0.84
	1,885,000	0.90	2.00	1,885,000	0.90
	248,334	0.97	3.27	208,336	0.96
	2,050,000	1.10	1.10	2,046,667	1.10
	4,935,000	1.16	3.38	3,178,328	1.16
	10,000	1.19	3.90	6,667	1.19
	75,000	1.24	3.78	50,000	1.24
	300,000	1.31	3.56	200,000	1.31
	11,726,668	\$ 1.01	2.42	9,505,004	\$ 0.99

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

	Six months ended June 30	
	2014	2013
Assumptions		
Risk free interest rate (%)	1.65	1.67
Expected life (years)	3.79	3.81
Expected volatility (%)	81.28	82.44
Forfeiture rate (%)	9.08	6.46
Weighted average fair value of options granted (\$)	0.52	1.04

Forfeiture rate is calculated based on historical forfeiture data of the Company. The weighted average share price at the date of exercise for share options exercised during the six months ended June 30, 2014 was \$0.35 (June 30, 2013 - \$1.27).

Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)
June 30, 2014 and 2013

11. Finance costs

(\$000)	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Interest expense	732	\$ 530	\$ 1,620	\$ 999
Foreign exchange gain realized	-	2	-	(54)
Accretion of decommissioning liabilities	279	207	552	397
	1,011	\$ 739	\$ 2,172	\$ 1,342

12. Supplemental cash flow information

(\$000)	Six months ended June 30	
	2014	2013
Interest paid	\$ 1,620	\$ 999
Total	\$ 1,620	\$ 999
Changes in non-cash working capital		
Trade and other receivables ⁽¹⁾	(1,846)	(2,597)
Inventory	(31)	(73)
Inventory acquired	-	490
Accounts payable and accrued liabilities	(7,372)	(1,289)
	\$ (9,249)	\$ (3,469)
Operating	1,251	(2,022)
Investing	(10,500)	(1,439)
	\$ (9,249)	\$ (3,461)

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

13. Transactions with related parties

Legal fees in the amount of \$0.19 million (June 30, 2013 - \$0.30 million) were incurred with a legal firm of which a director is a partner, and these amounts included as general and administrative expenses or share issue costs. Software charges of \$0.10 million (June 30, 2013 - \$0.10 million) were charged to a company controlled by an officer. Trade and other receivables at June 30, 2014 include \$0.28 million (December 31, 2013 - \$nil) receivable from related parties. Accounts payable and accrued liabilities at June 30, 2014 include \$0.02 million (December 31, 2013 - \$0.31 million) due to related parties. The above transactions were conducted in the normal course of operations and were recorded at exchange amounts which were agreed upon between the Company and the related parties.

During the six months ended June 30, 2014, the Company disposed of a working interest in a minor non-producing property to a company controlled by a director for consideration of \$0.3 million, which was the deemed fair value of the property at the sale date. As the property had a \$nil carrying value, a \$0.3 million gain on disposition of property, plant and equipment was recorded in the period.

Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)
June 30, 2014 and 2013

14. Financial instruments and financial risk management

The Company's financial instruments include cash and cash equivalents, trade and other receivables, long-term receivable, bank indebtedness, accounts payable and accrued liabilities, and risk management contracts. The carrying values of cash and cash equivalents, trade and other receivables, long-term receivable, accounts payable and accrued liabilities and bank indebtedness are carried at fair values.

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

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

The fair value of cash and cash equivalents bank indebtedness is measured at level 1. The fair value of risk management contracts is measured at level 2.

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

Commodity price risk

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

At June 30, 2014, the following risk management contracts were outstanding with a mark-to-market liability value of \$11.0 million (June 30, 2013 - \$3.93 million).

Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)
June 30, 2014 and 2013

Financial WTI crude oil contracts

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

⁽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.

The Company has also entered into a contract to fix the WTI – Edmonton light differential at CAD\$9.25/bbl on 1,000 bbl/d for August to December 2014.

Financial AECO gas contracts

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

The Company does not apply hedge accounting to these risk management contracts and they are recorded as fair value with changes in fair value included in the condensed consolidated statement of loss and comprehensive loss. For the three months ended June 30, 2014, Strategic recorded unrealized gains on risk management contracts of \$0.66 million (June 30, 2013 – loss of \$2.87 million). For the six months ended June 30, 2014, Strategic recorded unrealized losses on risk management contracts of \$2.60 million (June 30, 2013 - \$3.70 million).

The following table summarizes the fair value as at June 30, 2014 and the change in fair value for the three and six months ended June 30, 2014:

(\$000)	June 30, 2014	December 31, 2013
Net derivative liabilities, beginning of period	\$ (8,757)	\$ (224)
Unrealized change in fair value	(2,597)	(8,533)
Net derivative liabilities, end of period	(11,354)	(8,757)
Derivative assets, end of period	-	-
Gross derivative liabilities, end of period	\$ (11,354)	\$ (8,757)

Net realized losses on risk management contracts for the three and six months ended June 30, 2014 were \$2.92 million (June 30, 2013 – gain of \$0.34 million) and \$5.48 million (June 30, 2013 – gain of \$0.39 million).

Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)
June 30, 2014 and 2013

15. Capital management

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

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

(\$000)	June 30, 2014	December 31, 2013
Operating loan (<i>Note 8</i>)	\$ 80,000	\$ 80,000
Amount drawn	(75,000)	(63,775)
Letters of credit	(4,139)	(4,139)
Unutilized portion of debt facility	861	12,086

As at June 30, 2014, the Company has a working capital deficit of \$89.1 million. The unutilized portion of the debt facility of \$20 million was only available for pre-approved capital expenditures and not available for general working capital purposes. Subsequent to June 30, 2014, in conjunction with the bank providing a waiver for the covenant violation at June 30, 2014 (Note 7), the Facility was amended to eliminate the \$20 million acquisition/development portion of the Facility. Based on expected cash flows and planned capital expenditures management has determined that the Company will need to pursue additional financing in order to complete capital activities and to fund liabilities as they come due. The Company is in the process of evaluating various financing arrangements. In the event that adequate funds from these arrangements are not available, the Company may be required to scale back or eliminate certain projects.