

Unaudited Interim Condensed Consolidated Financial Statements of

**ENHANCED OIL RESOURCES INC.**

Three months ended March 31, 2014 and 2013

ENHANCED OIL RESOURCES INC.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated condensed financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company.

The Company's independent auditor has not performed a review of these unaudited interim consolidated condensed financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

May 30, 2014

# ENHANCED OIL RESOURCES INC.

Condensed Consolidated Balance Sheets (Unaudited)

(all amounts expressed in thousands of US dollars)

	As of March 31, 2014	As of December 31, 2013
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 436	\$ 1,249
Restricted cash	19	44
Receivables	1,081	1,438
Pipe inventory	491	491
Other current assets	552	555
	<u>2,579</u>	<u>3,777</u>
Non-current assets		
Exploration and evaluation assets, net	40,535	41,630
Property and equipment, net	15,239	14,485
Restricted cash	5,501	5,501
Other	27	182
	<u>63,881</u>	<u>65,575</u>
<b>Total Assets</b>	<b>\$ 63,881</b>	<b>\$ 65,575</b>
<b>Liabilities And Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,645	\$ 3,426
Asset retirement obligations	297	648
	<u>5,942</u>	<u>4,074</u>
Asset retirement obligations	24,066	23,074
Shareholders' equity		
Equity instruments	124,166	124,166
Contributed surplus	9,364	9,364
Treasury stock, at cost	(108)	(108)
Deficit	(99,549)	(94,995)
	<u>33,873</u>	<u>38,427</u>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 63,881</b>	<b>\$ 65,575</b>

See accompanying notes to unaudited interim condensed consolidated financial statements.

Approved by the Board of Directors:

/s/ G. Wade Stubblefield

G. Wade Stubblefield  
Director

/s/ Barry D. Lasker

Barry D. Lasker  
Director

# ENHANCED OIL RESOURCES INC.

Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

(all amounts expressed in thousands of US dollars)

	Three Months Ended	
	March 31,	
	2014	2013
Revenues		
Oil and gas gross sales	\$ 2,366	\$ 2,977
Less: Royalties	(488)	(610)
	<u>1,878</u>	<u>2,367</u>
Expenses		
Production costs and taxes	641	1,069
Workover expenses	2,744	4
Field expenses	365	276
General and administrative	1,068	973
Loss on disposition of assets	1,028	-
Depreciation, depletion, and amortization	419	503
Financing costs and other, net	163	233
Stock-based compensation	-	77
Loss on derivative financial instruments, net	-	226
Foreign currency translation (gain) loss	4	(5)
	<u>6,432</u>	<u>3,356</u>
Loss before income taxes	(4,554)	(989)
Income tax provision	-	-
Net comprehensive loss for the period	<u>\$ (4,554)</u>	<u>\$ (989)</u>
<i>Loss per share - basic and diluted</i>	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>

See accompanying notes to unaudited interim condensed consolidated financial statements.

# ENHANCED OIL RESOURCES INC.

Condensed Consolidated Statements of Shareholders' Equity (Unaudited)  
(all amounts, except common shares, expressed in thousands of US dollars)

	Number of Common Shares			
	March 31,		March 31,	
	2014	2013	2014	2013
<b>Total Shareholders' Equity, beginning balances</b>			\$ 38,427	\$ 40,433
<b>Equity Instruments</b>				
Common Shares, Balance, January 1	160,186,319	160,186,319	124,166	124,166
Balance, End of Period	160,186,319	160,186,319	124,166	124,166
<b>Contributed Surplus</b>				
Balance, January 1			9,364	9,239
Fair value of stock option grants			-	77
Balance, End of Period			9,364	9,316
<b>Deficit</b>				
Balance, January 1			(94,995)	(92,864)
Net loss			(4,554)	(989)
Balance, End of Period			(99,549)	(93,853)
<b>Treasury Stock, at Cost</b>				
Balance, January 1			(108)	(108)
Balance, End of Period			(108)	(108)
<b>Total Shareholders' Equity</b>			\$ 33,873	\$ 39,521

See accompanying notes to unaudited interim condensed consolidated financial statements.

# ENHANCED OIL RESOURCES INC.

Condensed Consolidated Statements of Cash Flows (Unaudited)  
(all amounts expressed in thousands of US dollars)

	Three Months Ended	
	March 31,	
	2014	2013
Cash provided by (used in):		
Operating activities		
Net loss for the year	\$ (4,554)	\$ (989)
Add (deduct) noncash and other items:		
Depreciation, depletion, and amortization	419	503
Accretion of asset retirement costs	160	128
Loss on disposition of assets	1,028	-
Stock-based compensation expense	-	77
Unrealized loss on derivative financial instruments	-	208
Foreign currency translation loss	4	(5)
Write-off of other assets	111	-
Remeasurement of warrant liability	-	41
Other (income)	(3)	-
	(2,835)	(37)
Asset retirement expenditures	(158)	(275)
Changes in non-cash working capital	2,579	(2,882)
Cash used in operations	(414)	(3,194)
Investing activities		
Capital expenditures	(867)	(1,141)
Decreases in restricted cash, net	25	2,000
Proceeds from sale of assets	443	-
Cash (used in) provided by investing activities	(399)	859
Financing activities	-	-
Cash (used in) provided by financing activities	-	-
Change in cash and cash equivalents	(813)	(2,335)
Cash and cash equivalents, beginning of the period	1,249	8,535
Cash and cash equivalents, end of period	\$ 436	\$ 6,200

See accompanying notes to unaudited interim condensed consolidated financial statements.

# ENHANCED OIL RESOURCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements  
(all amounts in thousands of US dollars unless otherwise indicated)

Three Months Ended March 31, 2014

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## 1. Reporting Entity and Description of Business

Enhanced Oil Resources Inc. is a Company incorporated in British Columbia, Canada and is engaged, through its wholly owned U.S. subsidiaries (collectively referred to as the “Company”), in the acquisition, development, operation and exploitation of crude oil and gas properties, including enhanced oil recovery projects, in the Permian Basin in eastern New Mexico. Common shares of the Company are listed on the Toronto Stock Exchange (“TSX”) TSX – Venture Exchange under the symbol “EOR” and quoted on the OTCQX (“Over the Counter” qualified stock exchange) under the symbol “EORIF”. The registered address of the office is 1710-1177 West Hastings St. Vancouver, BC V6E 2LE.

## 2. Basis of Presentation and Significant Accounting Policies

### Going Concern

While these unaudited interim condensed consolidated financial statements are prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business, certain conditions and events cast significant doubt on the validity of this assumption. For the three months ended March 31, 2014, the Company had negative cash flows from operations of approximately \$0.4 million and, at March 31, 2014, an accumulated deficit of approximately \$99.5 million and expects to incur further losses in the development of its business. The Company’s ability to continue as a going concern is dependent upon its ability to generate profitable production and to obtain additional funding from loans, equity financings, the sale of assets or through other arrangements. Although the Company has been successful in obtaining financing in the past, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company.

These unaudited interim condensed consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption deemed to be inappropriate. These adjustments could be material.

**Functional Currency** – These unaudited interim condensed consolidated financial statements are presented in United States dollars, unless otherwise indicated. All references to \$ are to United States dollars and references to C\$ are to Canadian dollars.

**Reclassifications** – Certain reclassifications have been made to the March 31, 2013 unaudited interim condensed consolidated financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or accumulated deficit.

### Statement of Compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board

# ENHANCED OIL RESOURCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements  
(all amounts in thousands of US dollars unless otherwise indicated)

Three Months Ended March 31, 2014

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("IASB") applicable to the preparation of interim condensed financial statements, including IAS 34, Interim Financial Reporting. The Company has consistently applied the same accounting policies as those set out in the audited consolidated financial statements for the year ended December 31, 2013, which is available on the Company's website at [www.enhancedoilres.com](http://www.enhancedoilres.com). Certain disclosures included in the notes to the annual consolidated financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRS as issued by the IASB.

The accounting policies applied in these unaudited interim consolidated financial statements are based on IFRS issued and outstanding as of May 30, 2014, the date the Company's Board of Directors approved the statements.

The accompanying unaudited interim condensed consolidated financial statements include all adjustments, composed of normal recurring adjustments, considered necessary by management to fairly state the Company's results of operations, financial position and cash flows. The operating results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year, and, accordingly, actual results may differ from these estimates.

## **Recently Adopted Accounting Pronouncements**

On January 1, 2014, the Company adopted the following pronouncements as issued by the IASB. The adoption of these standards did not have a material impact on the unaudited interim condensed consolidated financial statements.

*IFRIC 21 "Levies"*. On May 20, 2013, the IASB issued guidance under IFRIC 21, which provides clarification on accounting for levies imposed by a government in accordance with legislation and confirms that a liability is recognized only when the triggering event specified in the legislation occurs.

*IAS 32 "Financial Instruments: Presentations"*. In January 2012, the IASB issued amendments IAS 32, "Financial Instruments: Presentation", to establish principles for presenting financial instruments as either liabilities or equity and for offsetting financial assets and financial liabilities.

*IAS 36 "Impairment of Assets"*. On May 29, 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.

## **3. Restricted Cash**

Restricted cash is comprised of escrowed amounts or certificates of deposit at banks which are pledged either to secure contractual obligations of the Company or to secure plugging and abandonment obligations for properties operated by the Company's subsidiaries.

# ENHANCED OIL RESOURCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements  
(all amounts in thousands of US dollars unless otherwise indicated)

Three Months Ended March 31, 2014

The following table summarizes the restricted cash balances of the Company:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Escrow deposit for St. Johns Dome contingent obligations	\$ 2,500	\$ 2,500
Bank deposits pledged to secure statutory plugging & abandonment bonds	3,020	3,045
Balance, end of year	\$ 5,520	\$ 5,545
Short -term	\$ 19	\$ 44
Long-term	\$ 5,501	\$ 5,501

## 4. Receivables

The Company's receivables were comprised of amounts due from crude oil purchasers of \$0.8 million and \$0.9 million at March 31, 2014 and December 31, 2013, respectively, and other receivables of \$0.3 million and \$0.5 million for the same periods, respectively, which had been outstanding for less than 30 days and more than 90 days. Management does not consider any of the receivable balances to be impaired. The carrying amount of receivables approximates the fair value due to the short term nature of the financial instrument.

## 5. Exploration and Evaluation Assets

Exploration and evaluation asset activity for the period ended March 31, 2014 was as follows:

	<b>Oil and Gas Properties</b>
Balance, January 1, 2014	\$ 41,630
Additions	116
Disposition of assets	(1,691)
Present value of asset retirement additions	521
Depletion	(41)
Balance, March 31, 2014	\$ 40,535

# ENHANCED OIL RESOURCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements  
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Three Months Ended March 31, 2014

## 6. Property and Equipment

Property and equipment activity for the period ended March 31, 2014 was as follows:

	Oil and Gas Properties	Other	Total
Balance, January 1, 2014	\$ 20,436	\$ 1,420	\$ 21,856
Additions	743	8	751
Present value of asset retirement additions	381	-	381
Balance, March 31, 2014	\$ 21,560	\$ 1,428	\$ 22,988

### Accumulated depreciation and depletion:

Balance, January 1, 2014	\$ (6,392)	\$ (979)	\$ (7,371)
Depreciation and depletion	(327)	(51)	(378)
Balance, March 31, 2014	\$ (6,719)	\$ (1,030)	\$ (7,749)

### Net book value:

January 1, 2014	\$ 14,044	\$ 441	\$ 14,485
March 31, 2014	\$ 14,841	\$ 398	\$ 15,239

Future development costs of \$71.4 million and \$58.2 million for the periods ended March 31, 2014 and 2013, respectively, have been included in the computation of depletion expense. No general and administrative costs have been capitalized with regard to property and equipment.

## 7. Asset Retirement Obligation

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the estimated future obligations associated with the retirement of resource properties and oil and gas properties:

Balance, January 1, 2014	\$ 23,722
Increase in provision due to change in estimate	902
Increase in provision due to passage of time	160
Decrease related to asset disposition	(263)
Asset retirement costs incurred	(158)
Balance, March 31, 2014	\$ 24,363

The total undiscounted amount of estimated future cash flows required to settle the obligations is \$41.3 million as of March 31, 2014 which has been discounted using risk free rates from 0.13% to 3.49% at March 31, 2014, and assumes inflation rates from 1.25% to 2.0%. Most of these obligations are expected to be settled over the next twenty-seven years and will be funded from general Company resources at the time of retirement.

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Notes to Unaudited Interim Condensed Consolidated Financial Statements  
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Three Months Ended March 31, 2014

## 8. Equity Instruments

**Authorized Shares** - There are an unlimited number of authorized common shares of no par value and up to 25 million preference shares of no par value (1,000 shares issued to a wholly owned subsidiary of the Company).

**Issued and Outstanding** – The Company had 160,186,319 shares of common stock outstanding at March 31, 2014 and December 31, 2013.

**Stock option plan** - The Company has a stock option plan under which a rolling amount is reserved for issuance of up to 10% of the outstanding common shares as of any particular grant date. These options have been granted with a five-year expiry. The option prices for all outstanding options are denominated in Canadian dollars (C\$), the trading currency of the Company's common shares.

The following tables summarize information about stock options as at March 31, 2014 (number of options in thousands):

	Number of Options	Weighted-Average Exercise Price (C\$)
Outstanding, January 1, 2014	11,085	\$ 0.24
Expired	(70)	0.30
Outstanding, March 31, 2014	11,015	\$ 0.24

Range of Prices C\$			Options Outstanding			Options Exercisable		
			Number Outstanding	Weighted-Average Contractual Life (Yrs.)	Weighted-Average Exercise Price (C\$)	Number Exercisable	Weighted-Average Exercise Price (C\$)	
Low	High							
\$ 0.10	\$ 0.15		2,540	3.81	\$ 0.10	2,540	\$ 0.10	
	0.16	0.25	4,966	1.46	0.23	3,000	0.22	
	0.26	0.44	3,509	0.81	0.29	2,575	0.30	
\$ 0.10	\$ 0.44		11,015	1.79	\$ 0.24	8,115	\$ 0.21	

**Earnings per share** - Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year excluding ordinary shares purchased by the Company and held as treasury shares. The weighted average number of shares outstanding which were used for purposes of the computation of basic per share data, was 160,186,319 at both March 31, 2014 and 2013. Since the Company incurred a net loss for both periods, no common stock equivalents were included in the computation of diluted earnings per share as their inclusion would have been anti-dilutive.

## 9. Related Party Transactions

There were no related party transactions for the periods ending March 31, 2014 and 2013.

# ENHANCED OIL RESOURCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements  
(all amounts in thousands of US dollars unless otherwise indicated)

Three Months Ended March 31, 2014

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## 10. Commitments

The Company is committed to the following future payments (principally related to office leases), as of March 31, 2014:

2014	\$	190
2015		252
2016		257
2017		151
Total	\$	850

In February 2014, the Company amended its CO<sub>2</sub> Purchase Agreement with Kinder Morgan CO<sub>2</sub> Company, L.P. (Kinder Morgan), to extend the dates before which the Company is obligated to take or pay for CO<sub>2</sub> purchases and connect to Kinder Morgan's pipeline. The agreement will provide the source of CO<sub>2</sub> for use in tertiary oil recovery projects in the Permian Basin. The contract, as amended, requires the Company to take or pay for the purchase of 27.4 billion cubic feet of CO<sub>2</sub> over a five-year period commencing no later than January 1, 2018. The maximum daily rate to be purchased under the contract is 20 million cubic feet per day during year three and the cost of CO<sub>2</sub> will fluctuate based on the price of crude oil and transportation tariffs. The Company will be required to construct a pipeline, currently estimated to be a distance of approximately 32 miles, to the pipeline operated by Kinder Morgan. The purchase commitment and obligation to pay, as amended, is cancellable before January 1, 2017, with no termination penalty.

## 11. Loss on Disposition of Assets

The Company sold certain oil and gas interests located in three Texas counties for cash proceeds of \$0.4 million and purchaser assumption of asset retirement liabilities of \$0.3 million in February 2014. The Company acquired these interests in July 2011 for \$1.6 million including \$0.6 million of asset retirement obligations. The transaction required that the parties jointly complete the workover of three wells to satisfy regulatory requirements before statutory operations could be transferred to the purchaser. The contingency requirements were completed in May 2014 and operations were subsequently transferred to the purchaser on May 19, 2014.

## 12. Financial Instruments - Commodity Contracts

The Company had no outstanding derivative agreement related to its crude oil sales during the three months ended March 31, 2014. For the same period reported in 2013, the Company reported realized losses on a derivative crude oil contract, net of the contract settlements, of \$0.02 million.

## 13. Fair Value Measurements

Fair value estimates are made at a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision. The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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Three Months Ended March 31, 2014

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- Level 1 – Values are based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.
- Level 2 - Values are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Prices in level 2 are either directly or indirectly observable as of the reporting date.
- Level 3 – Values are based on prices or valuation techniques that are not based on observable market data.

The Company has determined that the carrying value of its short-term financial assets and liabilities (cash and cash equivalents, restricted cash, receivables, accounts payable and accrued liabilities, borrowings) approximates fair value at the consolidated balance sheet dates due to the short-term maturity of these instruments.

The fair values of the derivatives are determined by a Level 2 valuation model, where pricing inputs other than quoted prices in an active market are used. These pricing inputs include quoted forward prices for commodities, foreign exchange rates, volatility and risk-free rate discounting, all of which can be observed or corroborated in the marketplace. The actual gains and losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices and foreign exchange rates as compared to the valuation assumptions.

## 14. Risk Management

Disclosures relating to exposure to risks, in particular credit risk, liquidity risk, foreign currency risk, interest rate risk and equity price risk are provided below.

**Risks Associated with Financial Assets and Liabilities:** The Company is exposed to financial risks arising from its financial assets and liabilities. Financial risks include market risks (such as commodity prices, foreign exchange and interest rates), credit risk and liquidity risk. The future cash flows of financial assets or liabilities may fluctuate due to movements in market prices and the exposure to credit and liquidity risks.

### Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents, including restricted cash, accounts receivable and counterparty risk on derivative contracts. The Company limits its exposure to credit risk with respect to cash equivalents by investing available cash in short-term deposits with Canadian and US banks, principally in overnight money market funds investing in government treasury instruments. The Company's receivables mainly consist of amounts due from sales of its crude oil and natural gas production. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

With respect to its crude oil and natural gas production receivables, the Company is the operator of all its property interests and owns the significant majority of the working interest in producing and non-producing properties.

# ENHANCED OIL RESOURCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements  
(all amounts in thousands of US dollars unless otherwise indicated)

Three Months Ended March 31, 2014

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Receivables related to the sale of crude oil production are with two major reputable marketers and proceeds are collected within approximately 25 days following the month of delivery. The Company produces a limited amount of natural gas which is sold to a reputable purchaser and collections occur within approximately 55 days of the end of any monthly period. The Company with respect to the majority of operated production remits royalty and severance taxes to the other royalty and working interest owners of the leaseholds interests.

## **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At March 31, 2014, the Company had cash of \$0.4 million, excluding restricted cash of \$5.5 million. The Company's working capital and current cash flows are not sufficient to fund the Company's operating expenditures and cash requirements without additional sources of funds. The Company's ability to continue as a going concern (see note 2 - basis of presentation and significant accounting policies) is dependent upon its ability to generate profitable production and to obtain additional funding from loans, equity financings, the sale of assets or through other arrangements. Although the Company has been successful in obtaining financing in the past, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company.

## **Foreign exchange risk**

Substantially all of the Company's assets and expenditures are either denominated in or made with US dollars. As a result, the Company has very limited exposure to foreign exchange risk in relation to existing commitments or assets denominated in a foreign currency. The Company has chosen not to enter into any foreign exchange contracts as its Canadian dollar working capital balances are not deemed significant to the consolidated entity.

## **Interest rate risk**

The Company is exposed to interest rate risk to the extent that changes in the market interest rates impact the Company's short-term deposits that have floating interest rates and to the extent borrowings are made under the debt facility. The Company's exposure to interest rate fluctuations at March 31, 2014, is primarily related to cash deposits denominated in Canadian or US dollars invested in short-term (less than 90 days) money market funds through its bank accounts and interest earned on its cash and cash equivalents.

## **Commodity price risk**

The Company is exposed to fluctuations in the world commodity prices for its products with a corresponding impact to cash flow. Reduced cash flow may result in lower levels of capital being available for field activity, thus compromising the Company's capacity to grow production while at the same time replacing continuous production declines from existing properties. When debt levels are forecasted to increase due to capital expenditures exceeding cash flow, the Company may enter into oil and natural gas hedging contracts in order to provide stability of future cash flow, and thus predictable debt reduction. The Company enters derivative financial instruments to manage

# ENHANCED OIL RESOURCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements  
(all amounts in thousands of US dollars unless otherwise indicated)

Three Months Ended March 31, 2014

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commodity price risk exposure relative to actual commodity production and does not utilize derivative instruments for speculative purposes.

## 15. Capital Disclosures

To manage the capital structure, the Company may adjust capital spending, issue new shares, issue new debt or sell assets. The Company's objectives in managing its capital structure are to maintain a flexible financial structure, to preserve the Company's access to capital markets, and to finance the Company's growth and continue to meet its financial obligations. The Company has externally imposed capital restrictions through debt covenants associated with its borrowings from a financial institution.

The Company manages its capital structure and makes adjustments to it in light of market and economic conditions as well as risk characteristics of the Company's underlying assets. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues, the use of credit facilities, adjusting capital spending or by undertaking other strategies as deemed appropriate under the specific circumstances.

The Company monitors capital and its financing requirements through an annual budget process and updates to the budget forecast and working capital projections.

## 16. Supplemental Cash Flow Information

The (increase)/decrease in non-cash working capital from continuing operations is comprised of:

	<b>March 31, 2014</b>	<b>March 31, 2013</b>
Receivables	\$ 357	\$ 14
Other current assets	3	33
Other	-	8
Accounts payable and accrued expenses	2,219	(2,937)
Total	<u>\$ 2,579</u>	<u>\$ (2,882)</u>
Relating to:		
Operating activities	\$ 2,579	\$ (2,882)