FM RESOURCES CORP.

Financial Statements
December 31, 2005 and 2004

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AUDITORS' REPORT

TO THE SHAREHOLDERS OF FM RESOURCES CORP.

We have audited the balance sheet of FM Resources Corp. as at December 31, 2005 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements for the prior year were audited by other auditors who issued their report on those statements without qualification on February 24, 2005.

"Smythe Ratcliffe" (signed)

Chartered Accountants

Vancouver, British Columbia
March 31, 2006

FM RESOURCES CORP.
Balance Sheets
December 31

		2005		2004
Assets				
Current				
Cash	$	40	$	5,372
Accounts receivable		3,040		1,651
		3,080		7,023
Mineral Property (note 4)		1		1
	$	3,081	$	7,024
Liabilities				
Current				
Accounts payable and accrued liabilities	$	1,778,763	$	1,382,564
Loans payable (note 5)		1,084,424		1,043,524
		2,863,187		2,426,088
Shareholders' Deficit				
Capital Stock (note 6)		15,425,998		15,425,998
Contributed Surplus		305,000		305,000
Deficit		(18,591,104)		(18,150,062)
		(2,860,106)		(2,419,064)
	$	3,081	$	7,024

Nature of Operations (note 1)
Subsequent Events (note 9)

Approved by the Board:

“Chris Schultze”
…………………………………………………………………
Chris Schultze, Director

“Luard Manning”
…………………………………………………………………
Luard Manning, Director

FM RESOURCES CORP.
Statements of Operations and Deficit
Years Ended December 31

		2005		2004
Administrative Expenses				
Interest	$	288,123	$	223,728
Administration fees		72,000		72,000
Professional fees		34,274		11,082
Office and miscellaneous		24,913		20,673
Filing and transfer agent fees		15,732		7,781
Rent		6,000		6,000
		441,042		341,264
Other Expense				
Impairment to carrying value of mining assets held for resale		0		20,000
Loss for Year		(441,042)		(361,264)
Deficit, Beginning of Year		(18,150,062)		(17,788,798)
Deficit, End of Year	$	(18,591,104)	$	(18,150,062)
Loss Per Share		$ (0.18)		$ (0.15)
Weighted Average Number of Common Shares Outstanding		2,397,216		2,397,216

See notes to financial statements.

FM RESOURCES CORP.
Statements of Cash Flows
Years Ended December 31

	2005	2004
Operating Activities		
Loss for year	$ (441,042)	$ (361,264)
Item not involving cash		
Impairment to carrying value of mining assets held for resale	0	20,000
Operating Cash Flow	(441,042)	(341,264)
Changes in Non-Cash Working Capital		
Increase in accounts receivable	(1,389)	(115)
Increase in accounts payable and accrued liabilities	396,199	319,708
	394,810	319,593
Cash Used in Operating Activities	(46,232)	(21,671)
Financing Activity		
Increase in loans payable	40,900	22,000
Inflow (Outflow) of Cash	(5,332)	329
Cash, Beginning of Year	5,372	5,043
Cash, End of Year	$ 40	$ 5,372
Supplemental Information		
Income tax paid	$ 0	$ 0
Interest paid	$ 0	$ 0

See notes to financial statements.

1. NATURE OF OPERATIONS

The Company was incorporated under the laws of British Columbia and is in the process of changing its principal business activities to the oil and gas production business (note 9).

The financial statements have been prepared on a going-concern basis, which assumes the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. The Company has no current source of revenue. The future of the Company as a going-concern is highly dependent upon the Company's ability to attract new long-term and permanent equity financing, to complete the development of a mineral property, to have the continued support of creditors and shareholders, and ultimately to reach a profitable level of operations. Accordingly, the financial statements do not give effect to any adjustments, if any, that would be necessary should the Company be unable to continue as a going-concern, and therefore, be required to realize its assets and liquidate its liabilities other than in the normal course of business and at amounts which may differ from those shown in the financial statements.

As at December 31, 2005, the Company has a working capital deficiency of $2,860,107 (2004 - $2,419,065) and a cumulative operating deficiency of $18,591,104.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles within reasonable limits of materiality and will be prepared in future periods within the framework of the significant accounting policies summarized below:

(a) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results may differ from those estimates.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term, highly liquid investments that are readily convertible to known amounts of cash within 90 days from the original date of acquisition.

(c) Revenue recognition

Revenue from the sale of petroleum and natural gas is recorded when the petroleum is sold or natural gas is delivered and collectibility is reasonably assured.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Petroleum and natural gas interests

The Company follows the full cost method of accounting for petroleum and natural gas interests whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized. These costs include lease acquisition costs, geological and geophysical expenses, drilling costs of successful as well as unsuccessful wells and overhead charges related directly to the exploration. The carrying value of petroleum and natural gas interests are not intended to report replacement or current market values.

If the interests are sold or abandoned, the proceeds will be applied against capitalized costs unless such sale significantly impacts the rate of depletion.

Costs associated with unproven reserves are reviewed by management to determine whether or not they have become impaired. If impairment occurs, the carrying value of the related interest will be reduced to reflect the estimated net realizable value. The estimate will be based on the then current conditions and it is possible that changes could occur that would adversely affect management's estimates resulting in further write-downs of the carrying value of the interest.

(e) Joint interest operations

The Company's petroleum and natural gas exploration and production activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

(f) Income taxes

The Company uses the asset and liability method for accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

(g) Earnings (loss) per share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share amounts are not presented as there are no share purchase warrants, options or other equity instruments that are potentially dilutive.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Asset retirement obligations

The fair value of a liability for an asset retirement obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is charged to earnings using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flow.

(i) Stock-based compensation

The Company follows the recommendations of the Canadian Institute of Chartered Accountants Section 3870, *"Stock-Based Compensation and Other Stock-Based Payments"*, for accounting for stock-based compensation expense whereby all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock, call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after January 1, 2004, are accounted for using the fair value based method, and are recorded as an expense in the period the stock-based payments are vested or the awards or rights are granted, and a corresponding increase in contributed surplus. When stock options are exercised the corresponding fair value is transferred to capital stock.

3. FINANCIAL INSTRUMENTS

(a) Fair value

The carrying values of cash, accounts receivable and certain accounts payable and accrued liabilities approximate their fair values due to the short terms to maturity of the instruments. It was not practicable to determine the fair value of certain other accounts payable and accrued liabilities and loans payable as there is no active liquid market for similar debt.

(b) Interest rate risk

A significant portion of the Company's accounts payable and loans payable are principally at fixed interest rates, and therefore, the Company's exposure to interest rate cash flow risk on the debt is minimal.

(c) Credit risk

The Company is not exposed to significant credit risk on its financial assets due to cash being placed with major financial institutions.

(d) Currency risk

The Company is not exposed to foreign currency fluctuations.

4. MINERAL PROPERTY

	2005	2004
La Forma Property	$ 1	$ 1

The Company owns a 100% interest in the La Forma Property located in the vicinity of Mount Freegold, Yukon Territory. Due to a lack of current and foreseeable activity, the investment in the La Forma Property has been reduced to a nominal value of $1. The Company maintains the claim in good standing.

5. LOANS PAYABLE

	2005	2004
Loans payable, with interest at 10% per annum, compounded semi-annually, with repayment one year after request of lender	$ 865,924	$ 865,924
Loan payable, with interest at 18% per annum, compounded monthly, with no fixed terms of repayment	214,000	173,100
Loans payable to directors and a former director	4,500	4,500
	$ 1,084,424	$ 1,043,524

6. CAPITAL STOCK

(a) Authorized
Unlimited number of common shares without par value
Unlimited number of Class “A” preferred shares without par value

(b) Issued

	2005		2004	
	Number of Shares	Amount	Number of Shares	Amount
Balance, end of year	2,397,216	$ 15,425,998	2,397,216	$ 15,425,998

No shares were issued in fiscal 2005 or fiscal 2004.

(c) The Class “A” preferred shares are issuable in series; each series to have rights and restrictions as determined by the board of directors. The issuance of preferred shares of any series is subject to regulatory approval.

6. CAPITAL STOCK (Continued)

(d) During 2005, the Company adopted an incentive stock option plan under which the Company may issue a up to a maximum of 10% of the issued shares of the Company as stock options to acquire common shares in the capital of the Company as an incentive to officers, directors, employees and consultants. There were no stock options issued in 2005.

(e) At December 31, 2005 and 2004, the Company had 1,123 common shares held in escrow.

7. INCOME TAXES

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2005	2004
Income tax benefit computed at Canadian statutory rates	$ (150,484)	$ (128,682)
Unrecognized tax losses	150,484	128,682
	$ 0	$ 0

The components of the future income tax assets are as follows:

	2005	2004
Future income tax assets		
Non-capital loss carry-forwards	$ 583,000	$ 689,000
Capital loss carry-forwards	139,000	145,000
Unused cumulative development and exploration expenses	2,093,000	2,185,000
	2,815,000	3,019,000
Valuation allowance	(2,815,000)	(3,019,000)
Total future income tax assets	$ 0	$ 0

7. INCOME TAXES (Continued)

The valuation allowance reflects the Company's estimate that the tax assets, more likely than not, will not be realized.

The Company has accumulated non-capital losses for income tax purposes of approximately $1,708,000. These losses expire as follows:

2006	$ 136,000
2007	163,000
2008	179,000
2009	215,000
2010	255,000
2014	319,000
2015	441,000
	$ 1,708,000

The Company has cumulative capital losses and unused cumulative development and exploration expenses of $6,951,000 that may be carried forward indefinitely.

8. RELATED PARTY TRANSACTIONS

The aggregate amount of transactions made with parties not at arms-length to the Company consist of the following:

- Included in accounts payable and accrued liabilities is $10,640 (2004 - $11,640) representing funds due to directors of the Company and to a private company controlled by a director of the Company.

9. SUBSEQUENT EVENTS

On January 20, 2006, the Company completed the acquisition of all the issued and outstanding shares of Strikewell Capital Corp. ("Strikewell") for $2,886,400. The transaction comprised of the issuance of 2,000,000 voting common shares to the Vendor at an issue price of $0.40 for a total consideration of $800,000 and the issuance of a promissory note (the "Vendor Note") to the Vendor in the principal amount of $2,086,400. The transaction is effective January 1, 2006 with Strikewell becoming a wholly-owned subsidiary of the Company.

In addition, the Company assumed the payment obligations under debt owed by Strikewell to the Vendor in the amount of $628,895, which was added to the principal owing under the Vendor Note. As part of the transaction, the Company also restructured $1,832,149 of current debt owed by the Company to a company (the "Vendor Company") owned by the Vendor by entering into a second promissory note (the "Second Note") with the same payment terms as the Vendor Note. The Second Note is payable by the Company to the Vendor Company and replaces the previous payment obligations under the debt owed by the Company to the Vendor Company.

9. SUBSEQUENT EVENTS (Continued)

The Company also assumed the payment obligations under debt owed by Strikewell to the Vendor Company in the amount of $1,984,705, which was added to the principal owing under the Second Note.

The principal owing under the Vendor Note and the Second Note is due for repayment on the ninth anniversary of issuance of the notes and bears interest at 2% for years one and two, 3% for years three and four, 4% for year five, and 15% for years six through eight, compounded and payable semi-annually. Both the Vendor Note and the Second Note are secured against all of the assets of the Company.

Strikewell owns a producing petroleum and natural gas property near Garrington, Alberta. According to a report entitled *"Economic Evaluation of the Reserves of Strikewell Capital Corp., Garrington Area, Alberta, Canada"* prepared by Henderson & Associates Petroleum Consultants Ltd. on August 29, 2005, the total proved oil is 54 MBBL and the total proved gas is 209 MMSCF.

10. COMPARATIVE INFORMATION

Certain comparative amounts have been reclassified to comply with the financial statement presentation adopted in the current year.