

## Strikewell Energy Corp.

Management's Discussion and Analysis  
June 30, 2007

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The following management's discussion and analysis ("**MD&A**") for Strikewell Energy Corp. was prepared by management based on information available as at August 24, 2007. It should be reviewed together with the unaudited interim consolidated financial statements for the period ended June 30, 2007 and the MD&A and audited consolidated financial statements for the year ended December 31, 2006 that are filed on SEDAR and are available for review at [www.sedar.com](http://www.sedar.com).

As used in this MD&A, the terms "we", "us", "our", "Strikewell" and "the Company" mean Strikewell Energy Corp., and our subsidiary, Strikewell Capital Corp.

Unless otherwise noted, all dollar amounts are expressed in Canadian dollars ("**Cdn \$**") and any references to common shares are to common shares in the capital of Strikewell Energy Corp., unless the context clearly requires otherwise.

Barrels of oil equivalent ("**boe**") amounts have been calculated using a conversion rate of six thousand cubic feet ("**Mcf**") of natural gas per barrel ("**bb1**") of oil or natural gas liquids ("**6:1**") A conversion ratio of six Mcf to one bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent equivalency at the wellhead. Boe disclosure may be misleading, particularly if used in isolation.

### Forward-Looking Statements

This MD&A contains forward-looking statements. Forward-looking statements are statements that relate to future events or to our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including:

- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing oil and natural gas, and market demand;
- the risks and uncertainties involving geology of oil and gas deposits;
- the uncertainty of reserves estimates;
- the uncertainty of estimates and projections relating to exploration, development and production costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing;
- general economic conditions;
- the effect of acts of, or actions against, international terrorism;
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld; and

- the risks enumerated in the section of this MD&A entitled "Risk Factors", beginning on page 8.

These risks may cause our actual results or the actual results in our industry, or our levels of activity, performance or achievement, to be materially different from any projected future results, levels of activity, performance or achievements that are expressed or implied in these forward-looking statements.

These forward-looking statements are based on the estimates and opinions of our management at the time they are made. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Readers of this MD&A are cautioned not to rely on these forward-looking statements. Except as required by applicable law, we do not intend to update any of the forward-looking statements in this MD&A to conform these statements to actual results.

### Description of Business

Our Company is a Vancouver based oil and gas issuer with our common shares listed on the TSX Venture Exchange and trades under the symbol "SKK". We own producing petroleum and natural gas interests near Garrington, Alberta, through our wholly-owned subsidiary Strikewell Capital Corp ("**Strikewell Capital**"). We also own undeveloped mineral properties ("**Yukon properties**") located in the Dawson Range of west-central Yukon.

### Overall Performance

#### Yukon

Our Yukon properties are located in central Yukon, 66 km west of Carmacks and 220 km northwest of Whitehorse, and comprise contiguous quartz mining leases and quartz mineral claims encompassing roughly 1,130 hectares (2,785 acres).

Exploration on the Yukon properties has been limited to property maintenance level activities due to low working capital and change in our business focus to the oil and gas sector. We have not generated any income from our Yukon properties.

#### Garrington. Alberta

On January 20, 2006, the Company closed a transaction to acquire all of the issued and outstanding shares of Strikewell Capital. The transaction was effective as of January 1, 2006 and Strikewell Capital is now a wholly-owned subsidiary of Strikewell Energy Corp. ("**Strikewell Energy**"). Strikewell Capital owns producing petroleum and natural gas interests near Garrington, Alberta.

### Selected Financial Information

The following table contains a summary of our financial results for the three-month and six-month period ended June 30, 2007 and 2006.

(Cdn \$)	Three Months Ended		Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Net Income (Loss)	57,503	93,896	(14,950)	111,983
Basic per Share			(0.01)	0.04
Total Assets	2,798,601	4,108,851	2,798,601	4,108,851
Total Long-term Financial Liabilities	6,119,000	4,697,723	6,119,000	4,697,723

Our revenue performance and the income that we realize varies from period to period in relation to the number of wells that we have in production, our production volume and the prices that we receive for our commodities from time-to-time. The number of successfully developed wells turned to sales, if any, varies from quarter to quarter. Historically, peak commodity pricing for natural gas produced occurs in the fourth and first quarter periods. As our operations become profitable, we will be subject to taxes in the jurisdictions where we conduct our business.

The discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Application of GAAP requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the revenues and expenses reported during the period. Changes in these estimates, judgments and assumptions will occur as a result of future events, and accordingly, actual results could differ from amounts estimated.

### Summary of Quarterly Results

The following table presents selected unaudited consolidated financial information for the last eight quarters:

(CDN \$)	2007		2006				2005	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total Revenue	749,258	402,383	1,777,110	1,416,061	919,617	472,572	-	17
Net Income (Loss)	(14,950)	(72,454)	(1,820,701)	95,233	111,983	18,087	(441,042)	(309,795)
Basic per Share	(0.01)	(0.02)	(0.41)	0.02	0.04	0.00	(0.18)	(0.13)
Diluted per Share	(0.01)	(0.02)	(0.41)	0.02	0.04	0.00	(0.18)	(0.13)

### Results of Operations

#### **Six-month period ended June 30, 2007 compared to the six-month period ended June 30, 2006**

The net income for the six-month period ended June 30, 2007 decreased to a loss of \$14,950 compared to net income of \$111,983 for same period in 2006. Revenues for the six-month period ended June 30, 2007 decreased to \$749,258 compared to \$919,617 in the same period in 2006.

Direct operating expenses for the six-month period ended June 30, 2007 decreased to \$513,336 consisting of depletion for the six-month period ended June 30, 2007 of \$158,926, \$202,438 in production expenses and \$151,972 in royalties. This compared to \$614,777 for the same period in 2006,

Operating income for the six-month period ended June 30, 2007 decreased to \$235,922 compared to \$304,840 for the same period in 2006.

## Liquidity

Cash and cash equivalents at June 30, 2007 totaled \$325,748 compared to \$173,687 at June 30, 2006.

As of June 30, 2007, we had net working capital of \$299,214 compared to a net working capital deficit of \$692,785 at June 30, 2006.

As at June 30, 2007, we had no long-term capital expenditure commitments. Our long-term liabilities are the two promissory notes, as described below, and the asset retirement obligation.

Our objective is to meet our operating and capital requirements by a combination of cash flow from current and future well production, and re-investment of current capital. However, production volumes and the market price that we receive for the oil and gas that we produce and sell, determines our revenue from operations. As a consequence, our ability to obtain additional capital is substantially dependent on the price of oil and natural gas. Future cash flows and the continued availability of financing are subject to a number of uncertainties, such as production rates, the price of oil and gas, and the results of our drilling programs.

## Capital Resources

On January 20, 2006, the Company closed a transaction to acquire all of the issued and outstanding shares of Strikewell Capital. The transaction was effective as of January 1, 2006 and Strikewell Capital is now a wholly-owned subsidiary of Strikewell Energy. The purchase price for the shares of Strikewell Capital was \$2,886,399.78 paid by the Company by the issuance to Mr. Hislop (the "**Vendor**") of 2,000,000 voting common shares in the capital of the Company at an issue price equal to \$0.40 for a total consideration of \$800,000 and the issuance of a promissory note (the "**Vendor Note**") payable to the Vendor in the principal amount of \$2,086,399.78.

In addition, the Company assumed the payment obligations under debt owed by Strikewell Capital to the Vendor in the amount of \$628,895.16, which was added to the principal owing under the Vendor Note. As part of the transaction, the Company also restructured \$1,832,149.19 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**") on 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. In addition, the Company assumed the payment obligations under debt owed by Strikewell Capital to the Vendor Company in the amount of \$1,984,705.06, which was added to the principal owing under the Second Note. The principal owing under the Vendor Note and the Second Vendor Note is due for repayment on the ninth anniversary of issuance of the Notes and bears interest at 2% for the 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.

To date, the Company has been able to generate sufficient capital to fund its ongoing expenses and property acquisitions.

The Company has no assurance that additional funding will be available for the exploration and development of future projects. There can be no assurance that we will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of any projects with the possible loss of such properties. There can be no assurance that we will be able to engage in such financings in light of factors such as the market demand for our securities, the state of financial markets generally and other relevant factors. If such a method of financing is employed by our Company, it will result in increased dilution to the existing shareholders each time a financing involving equity is conducted.

## **Off-Balance Sheet and Other Financial Arrangements**

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

We do not have any commitments under oil and gas forward sales contracts or other types of hedging arrangements which might expose us to commodity price or production volume risks. We do not have in place any off-balance sheet financing type arrangements.

## **Transactions with Related Parties**

During the second quarter of 2007 a total of \$126,000 was paid to a private management company wholly-owned by a shareholder of our Company for management, administration, information services, accounting, rent, utilities and compliance services. The services are provided on a month-to-month basis and there is no formal written agreement.

## **Second Quarter**

### **Three-month period ended June 30, 2007 compared to the three-month period ended June 30, 2006**

The net income for the three-month period ended June 30, 2007 decreased to \$57,503 compared to net income of \$93,896 for same period in 2006. Revenues decreased to \$346,875 compared to \$447,045 for the same period in 2006.

Direct operating expenses for the three-month period ended June 30, 2007 decreased to \$224,626, consisting of depletion in the second quarter of \$79,463, \$61,668 in production expenses and \$83,495 in royalties. This compared to \$263,310, for the same period in 2006.

Operating income for the three-month period ended June 30, 2007 decreased to \$122,249 compared to \$183,735 for the same period in 2006.

The Company has undivided working interests in 9.5 sections of lands in the Garrington area of Alberta which were held in common with Mystique Energy Inc. ("**Mystique**") who operated these properties on behalf of the joint venture partners, including the Company. On April 24, 2007, Mystique was granted protection pursuant to the *Companies Creditors Arrangements Act* (Canada), effectively freezing the payment of amounts owing by Mystique to the Company. The Company is currently pursuing its remedies before the court to recoup these monies, which in the Company's view constitute trust funds held by Mystique on behalf of the Company.

On May 10, 2007, the British Columbia Securities Commission issued the Company a Cease Trade Order for failing to file its year end financial statements and MD&A within the required time period.

On June 8, 2007, the British Columbia Securities Commission lifted the Cease Trade Order and the Company's shares were reinstated for trading.

## **Proposed Transactions**

Currently, there are no proposed transactions that would have a material effect on the financial statements.

## **Subsequent Events**

The Company held its Annual General Meeting of Shareholders on July 12, 2007 and all resolutions placed before the shareholders were all voted in favour.

In July 2007 the current operator of our Garrington area properties, SunOcean Energy Ltd. ("SunOcean"), proposed to recomplete and stimulate the productive zone in well bore 04-20-034-03W5 in which the Company owns a 25% pooled working interest. The Company agreed to participate in the proposed operation and the completed operations have resulted in increased productivity from the productive zone. The well was placed back on sales during the same month that the operations were conducted.

### **Significant Accounting Policies**

The significant accounting policies used by the Company are disclosed in the notes to the Company's annual audited consolidated financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The following discussion outlines such accounting policies and is included in the MD&A to aid the reader in assessing the significant accounting policies and practices of the Company and the likelihood of materially different results being reported. The Company's management reviews its estimates regularly.

The following significant accounting policies outline the major policies involving critical estimates.

### **Proved Oil and Gas Reserves**

Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves. The estimated quantities of proved crude oil, natural gas and natural gas liquids are derived from geological and engineering data that demonstrate with reasonable certainty the amounts that can be recovered in future years from known reservoirs under existing economic and operating conditions. Reserves are considered proved if they can be produced economically as demonstrated by either actual production or conclusive formation tests. The oil and gas reserve estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Company's plans. The effect of changes in proved oil and gas reserves on the financial position of the Company is described under the headings "Depletion Expense" and "Impairment of Long Lived Assets".

### **Depletion Expense**

The Company uses the full cost method of accounting for exploration and development activities. In accordance with this method of accounting, all costs associated with exploration and development, are capitalized whether successful or not. The aggregate of net capitalized costs and estimated future development costs less estimated salvage values is amortized using the units-of-production method based upon proved oil and gas reserves. With all other factors remaining constant, an increase in estimated proved oil and gas reserves would result in a corresponding reduction in depletion expense. With all other factors remaining constant, a decrease in estimated future development costs would result in a corresponding reduction in depletion expense.

### **Impairment of Long Lived Assets**

The Company is required to review the carrying value of all property, plant and equipment including the carrying value of oil and gas assets, for potential impairment. The carrying value of the Company's petroleum and natural gas properties must not exceed their fair value. The fair value is equal to the estimated future cash flows from proved and probable reserves using future price forecasts and costs discounted at a risk-free rate.

If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long lived asset is charged to income.

### **Asset Retirement Obligations**

Asset retirement obligations are initially measured at fair value when they are incurred, which is the discounted future value of the estimated liability. This requires an estimate to be made of the future costs of retiring the asset at the point in time the asset is acquired.

### **Income Tax Accounting**

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

### **Financial Instruments**

The Company recognizes the fair value for the unrealized portion of the derivative contract at each reporting date on the financial statements. The fair value is based on an estimate of the amounts that would have been paid to or received from counterparties to settle these instruments given future market prices and other relevant factors. As the fair value is based on a number of subjective estimates such as future prices and volatility in commodity markets, estimates could differ from actual results realized.

The CICA released new standards related to financial instruments in April 2005 – *Financial Instruments – Recognition and Measurement*, Section 3855, *Hedges*, Section 3865, *Comprehensive Income*, Section 1530, *Financial Instruments – Disclosure and Presentation*, Section 3861 and *Equity*, Section 3251. These sections specify when a financial instrument or non-financial derivative is to be recognized on the balance sheet. These sections will require a financial instrument or non-financial derivative to be measured at fair value or using cost-based measures, establish how gains and losses are to be recognized and presented, including introducing comprehensive income, specify how hedge accounting should be applied; establish new disclosures about an entity's accounting for designated hedging relationships and the methods and assumptions applied in determining fair values.

We have adopted these new standards commencing January 1, 2007 and as at the date of this MD&A, we cannot reasonably estimate the full effect on our financial statements.

### **Stock-Based Compensation**

The Company uses the fair value method for valuing stock options. Under this method, as new options are granted, the fair value of these options will be expensed on a straight-line basis over the applicable vesting period, with an offsetting entry to contributed surplus. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model was developed for use in estimating the fair value of short-term traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of somewhat subjective assumptions including expected stock volatility.

### **Legal, Environmental Remediation and Other Contingent Matters**

The Company is required to both determine whether a loss is probable based on judgment and interpretation of laws and regulations and determine that the loss can reasonably be estimated. When the loss is determined it is charged to earnings. The Company's management must continually monitor known and potential contingent matters and make appropriate provisions by charges to earnings when warranted by circumstance.

## **Critical Accounting Estimates**

The preparation of financial statements in conformity with Canadian GAAP requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Our management routinely makes judgments and estimates about the effects of matters that are inherently uncertain. As the number of variables and assumptions affecting the probable future resolution of the uncertainties increase, these judgments become even more subjective and complex. We have identified certain accounting policies that are the most important to the portrayal of our current financial condition and results of operations.

The key elements and assumptions that we have made under these principles and their impact on the amounts reported in the consolidated financial statements remain substantially unchanged from those described in our 2006 audited consolidated financial statements.

## **Changes in Accounting Policies including Initial Adoption**

We have not adopted any changes in our accounting policies.

## **Risk Factors**

Exploration, Development and Production Risks: Oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration by our Company will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the cost associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risk of exploitation, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, sour gas releases, fires, spills, power outages, labour disruptions, inability to obtain suitable or adequate machinery, equipment or labour. Losses resulting from the occurrence of any of these risks could have a material adverse effect on future results of operations, liquidity and financial conditions.

Insurance: Our involvement in the exploration for, and development of, oil and gas properties may result in our Company becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although we may obtain insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances, be insurable or, in certain circumstances, we may elect not to obtain insurance to

deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce our funds available. The occurrence of a significant event that we are not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on our financial position, results of operations or prospects.

Prices, Markets and Marketing of Crude Oil and Natural Gas: Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond our control. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the volume of our oil and gas reserves. We might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in our future net production revenue, causing a reduction in our oil and gas acquisition and development activities. In addition, bank borrowings available to us are in part determined by our borrowing base. A sustained material decline in prices from historical average prices could limit or reduce our borrowing base, therefore reducing the bank credit available to us, and could require that a portion of any existing bank debt be repaid.

In addition to establishing markets for our oil and natural gas, we must also successfully market our oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by our Company will be affected by numerous factors beyond our control. We will be affected by the differential between the price paid by refiners for light quality oil and the grades of any oil we produced. Our ability to market our natural gas may depend upon our ability to acquire space on pipelines which deliver natural gas to commercial markets. We will also likely be affected by deliverability uncertainties related to the proximity of our reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. We have limited direct experience in the marketing of oil and natural gas.

Substantial Capital Requirements and Liquidity: We anticipate that we will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. We may have limited ability to secure the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to our Company. Moreover, future activities may require us to alter our capitalization significantly. The inability for us to access sufficient capital for our operations could have a material adverse effect on our financial condition, results of operations or prospects.

If we require additional funds in order to finance proposed operations, we may sell additional securities in our capital stock. If such additional securities are sold, existing shareholders will experience a dilution of their equity interest in the Company.

Financial Considerations: Our decision as to whether our properties contain commercial oil and gas deposits and whether these should be brought into production will require substantial funds and depend upon the results of exploration programs, feasibility studies and the recommendations of duly qualified engineers, geologists, or both. This decision will involve consideration and evaluation of several significant factors including but not limited to: (1) costs of bringing a property into production, including exploration and development work, preparation of production feasibility studies, and construction of production facilities; (2) availability and costs of financing; (3) ongoing costs of production; (4) market prices for the oil and gas to be produced; (5) environmental compliance regulations and restraints; and (6) political climate, governmental regulation and control. Many of the factors taken into consideration are beyond our control and may have a material effect on the outcome of our decision.

*Property Defects:* Title reports are not title insurance and they do not act as a guarantee of title. Our properties may be subject to prior unregistered agreements, native land claims or transfers which have not been recorded or detected through title research or which have been asserted since the date the research was completed. Additionally, the land upon which we hold leases may not have been surveyed; therefore, the precise area and location of such interests may be subject to challenge.

*Environmental Risks:* All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions, federal, provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases of emissions of various substances produced in association with oil and gas operations.

The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with this legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to various levels of government and third parties and may require our Company to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities that otherwise adversely affect the Company's financial condition, results of operations or prospects.

*Reserve Replacement:* Our future oil and natural gas reserves, production, and cash flows to be derived therefrom are highly dependent on our Company successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves we may have at any particular time and the production therefrom will decline over time as existing reserves are exploited. A future increase in our reserves will depend not only on our ability to develop any properties we may have from time to time, but also on our ability to select and acquire suitable producing properties or prospects. There can be no assurance that our future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

*Need to Manage Growth:* We could experience rapid growth in production, revenues, personnel, complexity of administration and in other areas. There can be no assurance that we will be able to manage the impact that future growth could place on our administrative infrastructure, systems, and controls. If we are unable to manage future growth effectively, our business, operating results and financial condition may be materially and adversely affected.

*Reliance on Operators, Key Personnel/Employees:* We may not be the operator of certain oil and gas properties in which we acquire an interest. To the extent we are not the operator of our oil and gas properties, we will be dependent on these operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, our success will be largely dependent upon the performance of management and key employees. We do not have any full time employees and we are dependent on our ability to hire and retain highly skilled and qualified personnel. We face competition for qualified personnel from numerous industry sources, and there can be no assurance that we will be able to attract and retain qualified personnel on acceptable terms. We do not maintain 'key man' insurance. The loss of service of any key personnel could have a materially adverse effect on our operations or financial condition.

*Management:* Our success is currently largely dependent on the performance of our directors and officers. The loss of services of any of these persons could have a materially adverse effect on our business and prospects. There is no assurance we can maintain the services of our directors, officers or other qualified personnel required to operate our business.

**Corporate Matters:** To date, we have not paid any dividends on our outstanding common shares. Certain of our directors and officers are involved in managerial and/or director positions of other oil and gas companies, partnerships or other entities involved in natural resource exploration and development, and conflicts of interest may arise between their duties as officers, managers or directors of our Company and as officers and directors of these other companies, partnerships or other entities. Conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies that apply under, the British Columbia *Business Corporations Act*.

**Conflicts of Interest:** Some of the directors and officers are engaged and will continue to be engaged in the search for additional business opportunities on behalf of other corporations and situations may arise where these directors or officers will be in direct competition with our Company. Conflicts, if any, will be dealt with in accordance with the relevant provisions of the British Columbia *Business Corporations Act*. Some of our directors and officers are or may become directors or officers of other companies engaged in other business ventures. In order to avoid the possible conflict of interest which may arise between the directors' duties to our Company and their duties to the other companies on whose boards they serve, the directors and officers of our Company have agreed to the following:

1. participation in other business ventures offered to the directors will be allocated between the various companies and on the basis of prudent business judgment and the relative financial ability and needs of the companies to participate;
2. no commissions or other extraordinary consideration will be paid to such directors and officers; and
3. business opportunities formulated by or through other companies in which the directors and officers are involved will not be offered to our Company except on the same or better terms than the basis on which they are offered to third party participants.

**Permits and Licenses:** Our operations may require permits and licenses from various governmental authorities. There can be no assurance that we will be able to obtain all necessary permits and licenses that may be required to carry out exploration and development of its projects.

**Additional Funding Requirements:** Our cash flow from our reserves may not be sufficient to fund our ongoing activities at all times. From time to time, we may require additional financing in order to carry out our oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause our Company to forfeit our interest in certain properties, miss certain acquisition opportunities and reduce or terminate our operations. If our revenues from our reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect our ability to expend the necessary capital to replace our reserves or to maintain our production. If our cash flow from operations is not sufficient to satisfy our capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or will be available on favourable terms.

**Issuance of Debt:** From time to time, we may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase our debt levels above industry standards. Our articles do not limit the amount of indebtedness that we may incur. The level of our indebtedness from time to time could impair our ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

**Availability of Drilling Equipment and Access Restrictions:** Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to our Company and may delay exploration and development activities.

## Risks Relating to the Industry

*Potential Profitability of Oil and Gas Ventures Depends upon Factors Beyond our Control:* The potential profitability of oil and gas properties is dependent upon many factors that are beyond our control. For instance, world prices and markets for oil and gas are unpredictable, highly volatile, potentially subject to governmental fixing, pegging, controls, or any combination of these and other factors, and respond to changes in domestic, international, political, social, and economic environments. Additionally, due to worldwide economic uncertainty, the availability and cost of funds for production and other expenses have become increasingly difficult, if not impossible, to project. These changes and events may materially affect our financial performance.

A productive well may become uneconomic or unmarketable in the event water or other deleterious substances are encountered which impair or prevent the production of oil and/or gas from the well. The marketability of oil and gas that we may acquire or discover could be affected by numerous factors beyond our control. These factors include the proximity and capacity of pipelines and processing equipment, market fluctuations of prices, taxes, royalties, land tenure, allowable production, adverse weather conditions and environmental protection. The extent of these factors cannot be accurately predicted and the combination of these factors may result in our Company not receiving an adequate return on invested capital.

*Competitiveness of the Oil and Gas Industry:* We will actively compete for reserve acquisitions, exploration leases, licenses and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater technical, financial and operational resources and personnel. Our competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators.

The oil and gas industry is highly competitive. Our competitors for the acquisition, exploration, production and development of oil and natural gas properties, and for capital to finance such activities, include companies that have greater financial and personnel resources available to them than our Company.

Certain of our natural gas customers and potential customers may themselves be exploring for oil and natural gas, and the results of these exploration efforts could affect our ability to sell or supply oil and gas to these customers in the future. Our ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be depended upon developing and maintaining close working relationships with our industry partners and joint operators and our ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

*Fluctuating Price and Demand:* The marketability of natural resources that we may acquire or discover may be affected by numerous factors beyond our control. These factors include market fluctuations in oil and gas pricing and demand, the proximity and capacity of natural resource markets and processing equipment, governmental regulations, land tenure, land use, regulation concerning the importing and exporting of oil and natural gas and environmental protection regulations. The impact of these factors cannot be accurately predicted, but the combination of these factors could have an adverse impact on our business.

*Comprehensive Regulation of the Oil and Gas Industry:* Our operations are subject to federal, provincial, and local laws relating to the protection of the environment, including laws regulating removal of natural resources from the ground and the discharge of materials into the environment. Our operations are also subject to federal, provincial, and local laws and regulations that seek to maintain health and safety standards by regulating the design and use of drilling methods and equipment. Various permits from government bodies are required for drilling operations to be conducted and no assurance can be given that such permits will be received. We can give no assurance that environmental standards imposed by federal, provincial or local

authorities will not be changed or that any such changes would not have materially adverse effects on our activities. Moreover, compliance with such laws may cause substantial delays or require capital outlays in excess of those anticipated, thus causing an adverse effect on our business and our Company. Additionally, we may be subject to liability for pollution or other environmental damages, which we may elect not to insure against due to prohibitive premium costs and other reasons.

Environmental Regulations: In general, our exploration and production activities are subject to certain federal, provincial and local laws and regulations relating to environmental quality and pollution control. These laws and regulations increase the costs of these activities and may prevent or delay the commencement or continuance of a given operation. Specifically, we are subject to legislation regarding emissions into the environment, water discharges and storage and disposition of hazardous wastes. In addition, legislation has been enacted which requires well and facility sites to be abandoned and reclaimed to the satisfaction of provincial authorities. However, such laws and regulations are frequently changed and we are unable to predict the ultimate cost of compliance. Our operating partners maintain insurance coverage customary to the industry however, we are not fully insured against all environmental risks.

Government Regulation/Administrative Practice: There is no assurance that the laws, regulations, policies or current administrative practices of any government body, organization or regulatory agency in Canada or any other applicable jurisdiction will not be changed, applied or interpreted in a manner which will fundamentally alter our ability to develop, operate, export or market our products. The actions, policies or regulations, or changes thereto, of any government body or regulatory agency, or other special interest groups, may have a detrimental effect on our Company. Any or all of these situations may have a negative impact on our ability to operate and make a profit.

Future Sales of Common Shares by Existing Shareholders: Sales of a large number of common shares in the public markets, or the potential for such sales, could decrease the trading price of the common shares and could impair our ability to raise capital through future sales of common shares. Accordingly, certain shareholders of our Company have an investment profit in the common shares that they may seek to liquidate.

### **Uncertainty of Estimates of Reserves**

Under applicable regulatory requirements, we will be required to identify and disclose any proved oil and gas reserves, estimated quantities of crude oil, natural gas and natural gas liquids. This geological and engineering data demonstrates with reasonable certainty the estimated quantities of crude oil, natural gas and natural gas liquids, which will be recoverable in future years from known reservoirs under existing economic and operating conditions. However, the process of estimating oil and gas reserves is complex, requiring significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir, and as a result, such estimates are inherently imprecise. Actual future production, oil and gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and gas reserves may vary substantially from our estimations from year to year. Any significant variance in the assumptions could materially affect the estimated quantities and present values of reserves. For example, a material drop in oil and gas prices, or a material increase in applicable taxes, will require management to reassess whether known reservoirs can continue to be reasonably judged as economically productive from one year to the next. In addition, the reserves may be subject to downward or upward revisions based upon production history, results of future exploration and development, prevailing oil and gas prices and other factors, many of which are beyond our Company's control. Actual production, revenues, taxes, development expenditures and operating expenses with respect to the reserves will likely vary from the estimates presented herein, and such variances may be material.

## Declining Reserves

In general, production rates from oil and gas properties decline as reserves are depleted. The decline rates depend on reservoir characteristics and vary from steep declines to the relatively slow declines characteristic of long-lived fields in other regions. Should one or more of the above risks materialize or should Strikewell Energy's underlying assumptions prove incorrect, Strikewell Energy's actual results may materially differ from Strikewell Energy's current expectations. Therefore in evaluating forward-looking statements, readers should specifically consider the various factors that could cause the Company's actual results to materially differ from such forward-looking statements.

## Reserves Data and Other Oil and Gas Information

Our independently prepared reserves assessment and evaluation of our oil and gas properties effective December 31, 2006 have been prepared in accordance with mandated National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities of Canadian Securities Administrators. A summary of our reports is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## Outstanding Share Data

Strikewell Energy is a Tier 2 issuer and our common shares are listed for trading on the TSX Venture Exchange under the symbol SKK.

The Company has the following securities outstanding as at the date of this MD&A:

Class of Shares	Par Value	Number Authorized	Number Issued
Common	Nil	Unlimited	4,396,093
Class A Preference	Nil	Unlimited	Nil

There are no options, warrants or convertibles securities outstanding and no common shares held in escrow.

## Additional Information

### **Disclosure Controls and Procedures:**

The Company's Chief Executive Officer and Chief Financial Officer (the "Responsible Officers") are responsible for establishing and maintaining disclosure controls and procedures for the Company, designed to provide reasonable assurance that material information relating to the Company and its subsidiary is made known to the Responsible Officers by others within the organization, particularly during this period in which the Company's quarterly and year-end financial statements and MD&A are being prepared. The Responsible Officers have evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Multilateral Instrument 52-109 for the quarter ended June 30, 2007. Based on this evaluation, they have concluded that such controls and procedures are effective in conveying the required information to the Responsible Officers, particularly in light of the Company's size, structure and stage of development. Management is currently in the process of formalizing the disclosure controls and procedures. These controls and procedures, no matter how well conceived or operated, can provide only reasonable, not absolute assurance, that the objectives are met.

### **Internal Controls over Financial Reporting:**

The Company's Responsible Officers are responsible for establishing and maintaining internal controls and procedures for the Company, designed to provide reasonable assurance that material information relating to the Company and its subsidiary is made known to the Responsible Officers by others within the organization, particularly during the period in which the Company's quarterly and year-end financial statements and MD&A are being prepared. The Responsible Officers have evaluated the effectiveness of the Company's internal controls and procedures as

defined in Multilateral Instrument 52-109 for the quarter ended June 30, 2007. Based on this evaluation, they have concluded that such controls and procedures are effective in conveying the required information to the Responsible Officers, particularly in light of the Company's size, structure and stage of development. Management is currently in the process of formalizing the internal controls and procedures. These internal controls and procedures, no matter how well conceived or operated, can provide only reasonable, not absolute assurance, that the objectives are met. Management is aware that in-house expertise to deal with complex taxation, accounting and reporting issues may not be sufficient. The Company utilizes outside assistance and advice on complex financial, taxation and reporting issues, which is common with companies of a similar size. We have assessed the design of our internal control over financial reporting and during this process we identified potential weaknesses in internal controls over financial reporting which are as follows:

- Due to the limited number of staff at the Company it is not feasible to achieve complete segregation of incompatible duties. The Company has mitigated this weakness in controls by adding that management review procedures over the areas where segregation is an issue.
- The Company does not retain staff with specialized and current income tax, financial reporting and complex accounting expertise. The Company reports current and future income tax expenses and liabilities and other complex accounting calculations based on management's estimates and relies on reviews by management, external consultants and audit committee for quality assurance.

There have been no significant changes to the internal controls during the second quarter. As a result of our assessment of the design of our internal control over financial reporting, we conclude that there is only a remote likelihood that a material misstatement would not be prevented or detected. Management and the board of directors work to mitigate the risk of a material misstatement in financial reporting, however, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

Additional information relating to our Company, including periodic quarterly and audited financial reports are available on SEDAR at [www.sedar.com](http://www.sedar.com). We also maintain a web site at [www.strikewellenergy.com](http://www.strikewellenergy.com).