STRIKEWELL ENERGY CORP.

Consolidated Financial Statements
December 31, 2007 and 2006

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AUDITORS' REPORT

TO THE SHAREHOLDERS OF STRIKEWELL ENERGY CORP.

We have audited the consolidated balance sheets of Strikewell Energy Corp. as at December 31, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years 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 audits.

We conducted our audits 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, British Columbia
April 15, 2008

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STRIKEWELL ENERGY CORP.
Consolidated Balance Sheets
December 31

		2007		2006
Assets (note 9)				
Current				
Cash	$	495,542	$	350,851
Accounts receivable (note 14)		196,960		211,017
Prepaid expenses		80,174		447
		772,676		562,315
Mineral Property (note 6)		1		1
Petroleum and Natural Gas Interests (note 7)		1,494,118		2,074,030
	$	2,266,795	$	2,636,346
Liabilities				
Current				
Accounts payable and accrued liabilities	$	536,044	$	410,132
Current portion of loan payable (notes 8 and 14)		955,259		0
		1,491,303		410,132
Loan Payable (notes 8 and 14)		0		916,694
Notes Payable (notes 9 and 14)		5,473,806		4,991,427
Asset Retirement Obligations (note 10)		238,359		198,900
		7,203,468		6,517,153
Shareholders' Deficit				
Capital Stock (note 11)		16,221,855		16,221,855
Contributed Surplus (note 12)		309,143		309,143
Deficit		(21,467,671)		(20,411,805)
		(4,936,673)		(3,880,807)
	$	2,266,795	$	2,636,346

Nature of operations (note 1)

Approved by the Board:

"Chris Schultze"
…………………………………………………………………
Chris Schultze, Director

"Luard Manning"
…………………………………………………………………
Luard Manning, Director

STRIKEWELL ENERGY CORP.
Consolidated Statements of Operations and Deficit
Years Ended December 31

		2007		2006
				(note 2)
Revenue				
Petroleum and natural gas	$	1,401,493	$	1,777,110
Miscellaneous		53,596		0
		1,455,089		1,777,110
Direct Expenses				
Production		418,317		812,238
Royalties		273,895		327,154
Depletion and accretion		773,995		1,526,959
		1,466,207		2,666,351
		(11,118)		(889,241)
Administrative Expenses				
Interest		692,904		608,780
Administration fees (note 14(i))		252,000		96,000
Professional fees		85,013		118,311
Office and miscellaneous		22,349		24,215
Filing and transfer agent fees		13,008		15,416
Directors' fees		12,000		12,000
Bad debts (recovery)		(32,526)		56,738
		1,044,748		931,460
Net Loss and Comprehensive Loss for Year		(1,055,866)		(1,820,701)
Deficit, Beginning of Year		(20,411,805)		(18,591,104)
Deficit, End of Year	$	(21,467,671)	$	(20,411,805)
Loss Per Share	$	(0.24)	$	(0.41)
Weighted Average Number of Common Shares Outstanding		4,396,093		4,396,964

See notes to consolidated financial statements.

STRIKEWELL ENERGY CORP.
Consolidated Statements of Cash Flows
Years Ended December 31

	2007	2006
		(note 2)
Operating Activities		
Loss for year	$ (1,055,866)	$ (1,820,701)
Items not involving cash		
Depletion and accretion	773,995	1,526,959
Accretion of discount on notes payable	482,379	429,314
Accrued interest on loan payable	38,565	46,270
	239,073	181,842
Changes in non-cash working capital		
Accounts receivable	14,057	61,330
Prepaid expenses	(79,727)	(447)
Accounts payable and accrued liabilities	66,079	130,024
	409	190,907
Cash Provided by Operating Activities	239,482	372,749
Investing Activity		
Petroleum and natural gas interests	(94,791)	(40,686)
Inflow of Cash	144,691	332,063
Net Cash Acquired on Acquisition of Subsidiary	0	18,748
Cash, Beginning of Year	350,851	40
Cash, End of Year	$ 495,542	$ 350,851
Supplemental Information		
Non-cash transactions		
Increase in asset retirement obligations	$ 19,569	$ 0
Accounts payable relating to petroleum and natural gas interests	$ 59,833	$ 0
Loan converted to note payable	$ 0	$ 214,000
Escrow shares cancelled	$ 0	$ 4,143
Issuance of 2,000,000 common shares for acquisition of Strikewell Capital Corp.	$ 0	$ 800,000
Accounts payable converted to note payable	$ 0	$ 1,618,149
Interest paid	$ 129,888	$ 0
Income taxes paid	$ 0	$ 0

1. NATURE OF OPERATIONS

The Company was incorporated under the laws of British Columbia and its principal business activities are oil and gas production and exploration. On September 1, 2006, the Company changed its name from FM Resources Corp. to Strikewell Energy Corp. On January 1, 2006, the Company purchased all of the issued and outstanding shares of Strikewell Capital Corp. ("Strikewell Capital"), a company that owns producing petroleum and natural gas interests near Garrington, Alberta.

The financial statements have been prepared on a going-concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. 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 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 that may differ from those shown in the financial statements.

As at December 31, 2007, the Company has a working capital deficit of $718,627 (2006 – surplus of $152,183) and a cumulative deficit of $21,467,671 (2006 - $20,411,805).

2. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

(a) Basis of consolidation

The consolidated financial statements of the Company include its wholly-owned subsidiary, Strikewell Capital Corp. All intercompany balances and transactions have been eliminated.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial Instruments

Effective January 1, 2007, the Company adopted Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, "financial instruments – recognition and measurement", which establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The standard requires the Company to account for certain financial assets and liabilities at fair value at each balance sheet date. Financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is no longer recognized or impaired, at which time the amounts would be recorded in net income.

Financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, loan payable and notes payable. Cash and cash equivalents are designated as held-for-trading; accounts receivable are designated as loans and receivables; and accounts payable and accrued liabilities, loan payable and notes payable are designated as other financial liabilities.

The adoption of this section did impact the Company's consolidated financial statements.

(c) Comprehensive Income

Effective January 1, 2007, the Company adopted CICA Handbook Section 1530, "comprehensive income", which establishes standards for presentation and disclosure of comprehensive income. Comprehensive income is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income and other comprehensive income. The historical make up of net income has not changed. Other comprehensive income includes gains or losses, which generally accepted accounting principles requires to be recognized in a period but excluded from net income for that period. The Company has no items of other comprehensive income in any period presented. Therefore, net income as presented in the Company's statements of operations and deficit equals comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) 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, 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. Significant areas requiring the use of estimates relate to the collectibility of accounts receivable, the recoverability of petroleum and natural gas interest costs, fair value of financial instruments, accrued liabilities, the assumptions used to discount the notes payable to fair value, asset retirement obligations, the rates of depletion and accretion of petroleum and natural gas interests, the valuation allowance for future income tax assets, and the fair value of assets and liabilities acquired in the purchase of Strikewell Capital. Management believes these estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

(e) Revenue recognition

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

(f) 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 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.

Depletion and accretion of petroleum and natural gas interests is computed using the unit-of-revenue method where the ratio of current year revenues to estimated future revenues determines the proportion of depletable costs to be expensed.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) 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.

(h) 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.

(i) Loss per share

Basic loss per share is computed using the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. Shares held in escrow other than where their release is subject to the passage of time, are excluded from the computation of loss per share until the conditions for their release are satisfied.

(j) Stock-based compensation

The Company accounts for stock-based compensation using the fair value based method with respect to 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. Under this method, stock-based payments are recorded as an expense over the vesting period or when the awards or rights are granted, with a corresponding increase in contributed surplus. When stock options are exercised the corresponding fair value is transferred from contributed surplus to capital stock.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Asset retirement obligations

The Company recognizes an estimate of the liability associated with an asset retirement obligation ("ARO") in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a straight-line basis over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

(l) Future accounting changes

(i) The CICA has issued the following new handbook sections that will affect the Company:

- Section 3862, "Financial Instruments - Disclosures"
- Section 3863, "Financial Instruments - Presentation"
- Section 1535, "Capital Disclosures"
- Section 3064, "Goodwill and Intangible Assets".

Section 3862 modifies the disclosure requirements for Section 3861, "Financial Instruments - Disclosure and Presentation", including required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. Section 3863 carries forward the presentation requirements of Section 3861. These new sections are effective on January 1, 2008. The Company is in the process of assessing the impact of these new sections on its consolidated financial statements.

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. The entity's disclosure should include information about its objectives, policies and procedures for managing capital and disclose whether it has complied with any capital requirements to which it is subject and the consequences of non-compliance. The new section is effective on January 1, 2008. The Company is in the process of assessing the impact of this new section on its consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Future accounting changes (Continued)

(i) (Continued)

Section 3064 replaces Section 3062, “Goodwill and Other Intangible Assets”. The section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new section is effective for years beginning on or after October 1, 2008. The Company is in the process of assessing the impact of this new section on its consolidated financial statements.

(ii) In June 2007, the CICA amended Handbook Section 1400, “General Standards of Financial Statement Presentation”, which requires management to make an assessment of a company’s ability to continue as a going-concern. When financial statements are not prepared on a going-concern basis that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the company is not considered a going-concern. The new section is effective on January 1, 2008. The Company is in the process of assessing the impact of this new section on its consolidated financial statements.

(iii) International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

4. FINANCIAL INSTRUMENTS

(a) Fair value

Prior to the adoption of CICA Handbook Section 3855, the Company disclosed the fair value of its financial instruments but was not required to adjust them to fair value. In prior years the carrying values of cash, accounts receivable, and accounts payable and accrued liabilities approximated their fair values due to the short terms to maturity of these instruments.

4. FINANCIAL INSTRUMENTS (Continued)

(b) Interest rate risk

The Company's loan and notes payable are 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 exposed to credit risk on its financial assets; however, this risk is mitigated due to cash being placed with major financial institutions. The Company is exposed to credit risk on its accounts receivable, which is due from a joint venture partner.

(d) Currency risk

The Company is exposed to fluctuations in commodity prices that are based in foreign currency (US dollars).

5. PURCHASE OF STRIKEWELL CAPITAL

(a) Purchase consideration

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

The purchase price is calculated as follows:

Note payable	$	2,086,400
Share consideration		
(2,000,000 common shares at $0.40 per share)		800,000
Discount of note payable to market interest rate		(1,970,036)
Purchase price	$	916,364

5. PURCHASE OF STRIKEWELL CAPITAL (Continued)

(a) Purchase consideration (Continued)

The purchase price was allocated as follows:

Cash	$	18,748
Accounts receivable		104,255
Petroleum and natural gas interests		3,687,249
Note payable		(2,613,600)
Accounts payable and accrued liabilities		(83,913)
Asset retirement obligations		(196,375)
	$	916,364

(b) Restructuring of debt

As part of the purchase transaction, the Company incurred $2,086,400 of debt. At the same time, it restructured existing debt and certain other debt obligations of the newly acquired subsidiary into two notes payable.

(i) Vendor Note

The Company assumed the payment obligations under debt owed by the subsidiary to the vendor in the amount of $628,895, which was added to the principal owing under the purchase transaction.

(ii) Second Note

The Company restructured $1,832,149 of existent debt owed to a company owned by the vendor (the "Vendor Company") by entering into a second promissory note (the "Second Note") with the same payment terms as the Vendor Note. The Company also assumed the payment obligations under debt owed by the subsidiary 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 are due for repayment on the ninth anniversary of issuance of the notes and bear 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. All of the assets of the Company are pledged as collateral against both the Vendor Note and the Second Note.

The interest rates on the notes payable for years one through five are considered to be below market for financial instruments with a similar risk profile. Management has determined that an interest rate of 12% per annum over the term of the loan would be a closer approximation to a fair value interest rate. Accordingly, the carrying value of the promissory notes has been discounted to reflect an interest rate of 12%.

5. PURCHASE OF STRIKEWELL CAPITAL (Continued)

(b) Restructuring of debt (Continued)

Face value of notes payable		
Issued upon acquisition	$	2,086,400
On restructuring		4,445,749
		6,532,149
Discount to reflect 12% interest rate		(1,970,036)
Carrying value of notes payable	$	4,562,113

6. MINERAL PROPERTY

		2007		2006
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 claims in good standing.

7. PETROLEUM AND NATURAL GAS INTERESTS

2007		Cost		Accumulated Depletion		Net Book Value
Garrington Property	$	3,772,657	$	2,278,539	$	1,494,118

2006		Cost		Accumulated Depletion		Net Book Value
Garrington Property	$	3,598,464	$	1,524,434	$	2,074,030

On January 1, 2006, the Company acquired 100% of the issued and outstanding shares of Strikewell Capital, which owns interests in producing petroleum and natural gas properties near Garrington, Alberta (note 5(a)).

The Company applied the ceiling test to its capitalized assets at December 31, 2007 and 2006 and determined that there was no impairment of such costs.

7. PETROLEUM AND NATURAL GAS INTERESTS (Continued)

Included in the Company's petroleum and natural gas interests are amounts totaling $81,386 (2006 - $102,894), net of accumulated depletion, representing the asset retirement obligation.

8. LOAN PAYABLE

	2007	2006
Unsecured loan payable, with interest at 10% per annum, compounded semi-annually, due June 1, 2008	$ 955,259	$ 916,694
Less: Current portion	955,259	0
	$ 0	$ 916,694

Included in the loan payable is accrued interest of $89,335 (2006 - $50,770).

9. NOTES PAYABLE

	Vendor Note	Second Note	Total
Face value of notes payable	$ 2,715,295	$ 3,816,854	$ 6,532,149
Discount to effective rate	(818,908)	(1,151,128)	(1,970,036)
Carrying amount, January 1, 2006	1,896,387	2,665,726	4,562,113
Accretion of discount	178,458	250,856	429,314
Carrying amount, December 31, 2006	2,074,845	2,916,582	4,991,427
Accretion of discount	200,516	281,863	482,379
Carrying amount, December 31, 2007	$ 2,275,361	$ 3,198,445	$ 5,473,806

Notes payable consist of two notes, arising from the purchase consideration for the acquisition of Strikewell Capital and the restructuring of certain accounts payable and loans payable of the Company. The notes were issued January 1, 2006.

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.

The interest rates on the notes payable for years one through five are considered to be below market for financial instruments with a similar risk profile. Management has determined that 12% per annum over the term of the loan would be a closer approximation to a fair value interest rate. Accordingly, the carrying value of the notes payable has been discounted to reflect an effective rate of 12%.

9. NOTES PAYABLE (Continued)

Both the Vendor Note and the Second Note are secured against all assets of the Company. The Vendor Note is due to a significant shareholder of the Company. The Second Note is due to a company owned by a significant shareholder of the Company.

10. ASSET RETIREMENT OBLIGATIONS

The Company's AROs result from net ownership interest in oil and gas properties including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its AROs is approximately $483,300 (2006 - $411,000). The majority of the costs will be incurred after 2012. An inflation factor of 1.5% has been applied to the estimated asset retirement cost. A credit-adjusted, risk-free rate of 10% was used to calculate the fair value of the AROs. A reconciliation of the AROs is provided below:

	2007	2006
Balance, beginning of year	$ 198,900	$ 0
Asset retirement obligations acquired upon purchase of Strikewell Capital	0	196,375
Increase in estimated future obligations	19,569	0
Accretion expense	19,890	2,525
Balance, end of year	$ 238,359	$ 198,900

11. CAPITAL STOCK

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

(b) Issued

	2007		2006	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	4,396,093	$ 16,221,855	2,397,216	$ 15,425,998
Shares issued for acquisition of 100% of Strikewell Capital (note 5)	0	0	2,000,000	800,000
Cancellation of escrow shares	0	0	(1,123)	(4,143)
Balance, end of year	4,396,093	$ 16,221,855	4,396,093	$ 16,221,855

11. CAPITAL STOCK (Continued)

(b) Issued (Continued)

On October 3, 2006, the Company cancelled 1,123 common shares, which were held in escrow for certain shareholders, as part of an escrow agreement dated August 6, 1986. The Company cancelled these shares as the Company has abandoned the property for which the escrow shares were issued.

(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. There are no preferred shares outstanding.

(d) During 2007, the Company adopted a new incentive stock option plan under which the Company may issue 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 or outstanding during 2006 or 2007.

12. CONTRIBUTED SURPLUS

Balance, December 31, 2005	$	305,000
Cancellation of escrow shares		4,143
Balance, December 31, 2006 and 2007	$	309,143

13. INCOME TAXES

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

		2007		2006
Income tax benefit computed at Canadian statutory rates	$	(360,000)	$	(621,000)
Accretion of discount on notes payable		164,000		146,000
Depletion and accretion		264,000		521,000
Crown royalties		9,000		34,000
Reduction in future income taxes resulting from statutory rate reduction		755,000		0
Reduction of taxes due to use of resource pools		(832,000)		(80,000)
	$	0	$	0

13. INCOME TAXES (Continued)

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

	2007	2006
	26%	34.12%
Future income tax assets		
Non-capital loss carry-forwards	$ 624,000	$ 681,000
Capital loss carry-forwards	106,000	139,000
Asset retirement obligations	62,000	68,000
Tax value in excess of book value of equipment	719,000	943,000
Tax value in excess of book value of petroleum and natural gas interests	1,462,000	1,944,000
Total future tax asset	2,973,000	3,775,000
Valuation allowance	(2,698,000)	(3,250,000)
Future tax asset	275,000	525,000
Future income tax liability		
Tax value in excess of book value of notes payable	(275,000)	(525,000)
Net future income tax	$ 0	$ 0

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 $2,397,000. These losses expire as follows:

2008	$ 220,000
2009	214,000
2010	255,000
2014	319,000
2015	441,000
2026	382,000
2027	566,000
	$ 2,397,000

The Company has cumulative capital losses of $817,000 and unused cumulative development and exploration expenses of $7,117,000 that may be carried forward indefinitely.

14. RELATED PARTY TRANSACTIONS

The aggregate amount of transactions made with parties not at arm's length to the Company consists of the following:

(a) Included in accounts payable and accrued liabilities is $52,000 (2006 - $52,000) due to a company whose former CEO is a significant shareholder of the Company.

(b) Included in accounts receivable is $142,644 (2006 - $142,644) due from a company under significant influence from a director who is a significant shareholder of the Company.

(c) Directors' fees paid to directors of $12,000 (2006 - $12,000).

(d) Included in loan payable is $955,259 (2006 - $916,694) payable to a significant shareholder of the Company.

(e) Included in accounts payable is $7,999 (2006 - $7,999) in trade payables, and $29,493 (2006 - $54,307) of interest payable to a significant shareholder of the Company.

(f) A note payable with a face value of $2,715,295 (2006 - $2,715,295) is outstanding to a significant shareholder of the Company.

(g) Included in accounts payable is $73,374 (2006 - $32,835) of trade payables, and $152,674 (2006 - $76,337) of interest payable to a company controlled by a significant shareholder of the Company.

(h) A note payable with a face value of $3,816,854 (2006 - $3,816,854) is outstanding to a company controlled by a significant shareholder of the Company.

(i) Administration fees of $252,000 (2006 - $118,715) were paid or payable to a company controlled by a significant shareholder of the Company.

All of the above transactions and balances except items (f) and (h) are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Items (f) and (h) are measured at the carrying amount.