STRIKEWELL ENERGY CORP.

Consolidated Financial Statements
December 31, 2010 and 2009

Index

STRIKEWELL ENERGY CORP.

Management's Responsibility for Financial Reporting

The consolidated financial statements of Strikewell Energy Corp. are the responsibility of the Company's management. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgment based on information currently available.

Management has developed and is maintaining a system of internal controls to ensure that the Company's assets are safeguarded, transactions are authorized and properly recorded, and financial information is reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities. The Audit Committee reviews the results of the audit and the annual consolidated financial statements prior to their submission to the Board of Directors for approval.

The consolidated balance sheets as at December 31, 2010 and 2009 and consolidated statements of operations and deficit and cash flows for the years then ended have been audited by Smythe Ratcliffe LLP, Chartered Accountants, and their report outlines the scope of their examination and gives their opinion on the consolidated financial statements.

"Christopher Schultze" (signed)

Christopher Schultze
President

April 19, 2011

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF STRIKEWELL ENERGY CORP.

We have audited the accompanying consolidated financial statements of Strikewell Energy Corp., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Strikewell Energy Corp. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended are in accordance with Canadian generally accepted accounting principles.

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Emphasis of Matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which indicates that the Company incurred a loss before other items and income taxes of $891,287 during the year ended December 31, 2010 and, as of that date, the Company's current liabilities exceeded its current assets by $81,748. These conditions, along with other matters set forth in note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, British Columbia
April 19, 2011

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Strikewell Energy Corp.

Consolidated Balance Sheets
December 31

		2010		2009
ASSETS (note 8)				
Current				
Cash	**$**	**252,115**	$	1,382,109
Accounts receivable (note 13)		**34,861**		103,877
		286,976		1,485,986
Mineral Property (note 5)		**-**		1
Petroleum and Natural Gas Interests (note 6)		**446,582**		452,307
	$	**733,558**	$	1,938,294
LIABILITIES				
Current				
Accounts payable and accrued liabilities (note 13)	**$**	**368,724**	$	341,371
Current portion of loan payable (notes 7 and 13)		**-**		1,128,444
		368,724		1,469,815
Loan Payable (notes 7 and 13)		**1,215,036**		-
Notes Payable (note 8)		**4,559,258**		6,197,592
Asset Retirement Obligations (note 9)		**881**		862
		6,143,899		7,668,269
SHAREHOLDERS' DEFICIENCY				
Capital Stock (note 10)		**16,771,855**		16,771,855
Contributed Surplus (note 11)		**309,143**		309,143
Deficit		**(22,491,339)**		(22,810,973)
		(5,410,341)		(5,729,975)
	$	**733,558**	$	1,938,294

On behalf of the Board:

"Christopher Schultze" **Director**

"Luard Manning" **Director**

See accompanying notes to consolidated financial statements

Strikewell Energy Corp.

Consolidated Statements of Operations and Deficit
Years Ended December 31

	2010	2009
Revenue		
Petroleum and natural gas	$ **121,490**	$ 533,355
Miscellaneous	**-**	9,000
	121,490	542,355
Direct Expenses		
Production	**66,535**	604,935
Royalties	**23,713**	86,911
Depletion and accretion	**6,084**	136,111
	96,332	827,957
Operating Income (Loss)	**25,158**	(285,602)
General and Administrative Expenses		
Administration fees (note 13(f))	**194,200**	240,000
Directors' and officer's fees (note 13(b))	**18,000**	18,000
Filing and transfer agent fees	**18,066**	26,146
Interest	**-**	86,618
Interest on long-term debt	**607,720**	726,855
Office and miscellaneous	**13,565**	75,346
Professional fees	**64,894**	89,905
	916,445	1,262,870
Loss Before Other Items and Income Tax	**(891,287)**	(1,548,472)
Other Items		
Gain on sale of mineral property (note 5)	**1,199,999**	**-**
Gain on sale of petroleum and natural gas interests (note 6)	**-**	2,112,580
Reclamation costs	**-**	(100,000)
	1,199,999	2,012,580
Income Before Income Tax Recovery	**308,712**	464,108
Income Tax Recovery	**10,922**	44,034
Net Income and Comprehensive Income For Year	**319,634**	508,142
Deficit, Beginning of Year	**(22,810,973)**	(23,319,115)
Deficit, End of Year	$ **(22,491,339)**	$ (22,810,973)
Basic and Diluted Earnings Per Share	$ **0.04**	$ 0.10
Weighted Average Number of Common Shares Outstanding	**8,626,862**	5,311,794

See accompanying notes to consolidated financial statements

Strikewell Energy Corp.

Consolidated Statements of Cash Flows
Years Ended December 31

		2010		2009
Operating Activities				
Net income for the year	$	**319,634**	$	508,142
Items not involving cash:				
Depletion and accretion		**6,084**		136,111
Accretion of discount on notes payable		**338,818**		533,396
Accrued interest on loan payable		**86,592**		86,593
Gain on sale of petroleum and natural gas interests		**-**		(2,112,580)
Gain on sale of mineral property		**(1,199,999)**		-
		(448,871)		(848,338)
Changes in non-cash working capital:				
Accounts receivable		**69,016**		144,719
Prepaid expenses		**-**		30,137
Accounts payable and accrued liabilities		**68,224**		(194,452)
Due to joint venture participants		**-**		(404,893)
		137,240		(424,489)
Cash Used in Operating Activities		**(311,631)**		(1,272,827)
Investing Activities				
Proceeds on sale of petroleum and natural gas interests		**-**		2,150,000
Deposits		**-**		185,739
Petroleum and natural gas interests		**(41,211)**		(17,249)
Cash Provided by (Used in) Investing Activities		**(41,211)**		2,318,490
Financing Activities				
Repayment on notes payable		**(777,152)**		(284,330)
Proceeds on issuance of shares		**-**		550,000
Cash Provided by (Used in) Financing Activities		**(777,152)**		265,670
Inflow (Outflow) Cash		**(1,129,994)**		1,311,333
Cash, Beginning of Year		**1,382,109**		70,776
Cash, End of Year	$	**252,115**	$	1,382,109
Supplemental Information				
Non-cash transactions:				
Reduction of notes payable due to transfer of mineral property	$	1,200,000	$	-
Increase in asset retirement obligations	$	19	$	862
Petroleum and natural gas interests received on sale	$	-	$	450,000
Accounts payable relating to petroleum and natural gas interests	$	2,582	$	43,453
Interest paid	$	65,322	$	374,092
Income taxes recovered	$	(10,922)	$	(42,303)

See accompanying notes to consolidated financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

Strikewell Energy Corp. (the "Company") was incorporated under the laws of British Columbia and its principal business activities are oil and gas production and exploration.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company has incurred significant operating losses over the past several fiscal years, is currently unable to self-finance operations, has a working capital deficiency of $81,748 (2009 - working capital of $16,171), an accumulated deficit of $22,491,339 (2009 - $22,810,973), limited resources, minimal operating cash flow and no assurances that sufficient funding will be available to conduct further exploration and development of its petroleum and natural gas interests. The Company will require additional equity financing to meet its administrative overhead costs, and to continue exploration work on its petroleum and natural gas interests in 2011.

The application of the going concern concept is dependent upon the Company's ability to generate future profitable operations, raise additional capital through debt and/or equity financing and its debtors' continued forbearance on the Company's outstanding debt. Management is actively seeking to raise the necessary capital to meet its funding requirements and has undertaken available cost cutting measures. There can be no assurance that management's plan will be successful.

These consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company's functional and reporting currency is the Canadian dollar.

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Strikewell Capital Corp. ("Strikewell Capital"). All significant intercompany balances and transactions have been eliminated on consolidation.

(b) Financial instruments

All financial instruments are classified as one of the following: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(b) Financial instruments (Continued)

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments.

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Additional disclosure on the measurement of fair value of financial instruments has been provided in note 3(a).

(c) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP 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 include the collectability of accounts receivable, the recoverability of petroleum and natural gas interest costs, balance of accrued liabilities, the assumptions used to discount the notes payable to fair value, determination of asset retirement and environmental obligations, the rates of depletion and accretion of petroleum and natural gas interests, and the valuation allowance for future income tax assets. While management believes these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

(d) Revenue recognition

Revenue from the sale of petroleum and natural gas is recorded when title passes to an external party and is based on volumes delivered to customers at contractual delivery points, and rates and collectability are reasonably assured. The costs associated with the delivery, including operating and maintenance costs, transportation and production-based royalty expenses, are recognized during the same period in which the related revenue is earned and recorded.

(e) 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 exploration. The carrying value of petroleum and natural gas interests are not intended to report replacement or current market values.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Petroleum and natural gas interests (Continued)

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

Depletion of petroleum and natural gas interests is computed using the unit-of-production method where the ratio of actual production to estimated future production determines the proportion of depletable costs to be expensed. Petroleum and natural gas are converted to a common unit of measure using barrels of production. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proved reserves and excludes the cost of undeveloped properties until it is determined that proved reserves are attributable to the property, or impairment has occurred.

(f) Ceiling test

The net carrying value of the Company's petroleum and natural gas properties is limited to an ultimate recoverable amount. The Company tests impairment against undiscounted net cash flows from proved reserves, less any impairment, of unproved properties and related major development projects. Impairment is recognized when the carrying value of the assets is greater than the undiscounted future net cash flows, in which case the assets are written down to the fair value of proved plus probable reserves plus the cost of unproved properties, net of impairment allowances. Fair value is determined based on discounted future net cash flows calculated using expected future prices and costs as well as the income tax legislation in effect at the period-end. The discount rate used is a credit-adjusted risk-free interest rate.

(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 of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and losses carried forward. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Earnings (loss) per share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that proceeds received from the exercise of stock options and warrants would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

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 a fair value based method with respect to all stock-based payments to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged either to operations or petroleum and natural gas interests, with the offset credit to contributed surplus.

For directors and employees fair value is recognized over the vesting period, and for non-employees fair value is recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to capital stock.

(k) Asset retirement obligations ("ARO")

The Company's operations are subject to various laws and regulations for federal and regional jurisdictions governing the protection of the environment. These laws are continually changing. The Company believes its operations are in compliance with all applicable laws and regulations. The Company expects to make, in the future, expenditures that comply with such laws and regulations but cannot predict the full amount or timing of such future expenditures. Estimated future reclamation costs are based principally on legal and regulatory requirements. Reclamation and remediation obligations arise from the acquisition, development, construction and normal operation of oil and gas properties, plant and equipment.

The Company recognizes an estimate of the liability associated with an 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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Future accounting changes

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

In February 2008, the Canadian Accounting Standards Board announced that January 1, 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The IFRS standards will be effective for the Company for interim and annual financial statements relating to the Company's fiscal year beginning on January 1, 2011. The first unaudited interim financial statements under IFRS will be for the quarter ending March 31, 2011, with comparative financial information for the quarter ending March 31, 2010. The first audited annual financial statements will be for the year ending December 31, 2011, with comparative financial information for the year ended December 31, 2010.

The Company has elected to use the following exemptions under IFRS 1 – First-time adoption of IFRS:

Deemed cost – The Company has elected to use the carrying amount under Canadian GAAP as the deemed cost of its oil and gas assets at the date of first-time adoption of IFRS.

Upon adoption of IFRS, the Company will elect to combine its opening contributed surplus with deficit.

In all other respects, the financial statements of the Company will remain materially unchanged with the exception of increased note disclosures.

(ii) Business Combinations

In January 2009, the Canadian Institute of Chartered Accountants issued Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

(a) Fair value

The carrying values of cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments.

The fair values of loan payable and notes payable have not been disclosed as their fair values cannot be reliably measured since the parties are not at arm’s length and there is no active, liquid market for similar instruments.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) Interest rate risk

The Company’s cash is held in bank accounts and due to the short-term nature of these financial instruments fluctuations in market interest rates do not have an impact on the cash flows or fair value as at December 31, 2010.

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.

(ii) Foreign currency risk

The Company is not exposed to significant foreign currency risk.

(iii) Other price risk

Other price risk is the risk that the fair or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk. The Company is not exposed to significant other price risk.

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its payment obligations. The Company is exposed to credit risk with respect to its cash and accounts receivable. The credit risk associated with cash is minimized substantially by ensuring these financial assets are placed with a major financial institution with strong investment-grade rating by a primary ratings agency. Trade receivables included in accounts receivable primarily consist of revenues from the sale of petroleum and natural gas to an oil and gas marketer. Management believes the credit risk is minimal.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Credit risk (Continued)

Concentration of credit risk exists with the Company's cash and trade receivables. The Company's concentration of credit risk and maximum exposure thereto is as follows:

	2010	2009
Cash	$ 252,115	$ 1,382,109
Trade receivables	27,312	45,886
	$ 279,427	$ 1,427,995

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying obligations as they become due. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated financing activities. The Company has a cash balance at December 31, 2010 of $252,115 (2009 - $1,382,109) and accounts receivable of $34,861 (2009 - $103,877). At December 31, 2010, the Company had accounts payable and accrued liabilities of $368,724 (2009 - $341,371) and a working capital deficiency of $81,748 (2009 - working capital of $16,171). Based on the current funds held, the Company will need to rely upon financing from shareholders and/or debt holders to obtain sufficient working capital. There is no assurance that such financing will be available on terms and conditions acceptable to the Company.

The amounts listed below are the remaining undiscounted contractual maturities for financial liabilities held by the Company as at December 31, 2010 and 2009:

Due Date	Accounts Payable and Accrued Liabilities	Loan Payable	Notes Payable	Total December 31, 2010
		(note 7)	(note 8)	
0 – 90 days	$ 270,202	$ -	$ -	$ 270,202
90 – 365 days	98,522	-	-	98,522
More than 1 year	-	1,215,036	4,270,667	5,485,703
	$ 368,724	$ 1,215,036	$ 4,270,667	$ 5,854,427

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(d) Liquidity risk (Continued)

Due Date	Accounts Payable and Accrued Liabilities	Loan Payable (note 7)	Note Payable (note 8)	Total December 31, 2009
0 – 90 days	$ 241,371	$ -	$ -	$ 241,371
90 – 365 days	100,000	1,128,444	-	1,228,444
More than 1 year	-	-	6,247,819	6,247,819
	$ 341,371	$ 1,128,444	$ 6,247,819	$ 7,717,634

4. CAPITAL MANAGEMENT

The Company defines its capital management as debt and shareholders' equity (deficit). Capital requirements are driven by the Company's exploration activities on its petroleum and natural gas interests. Management's objective is to ensure there are adequate capital resources to safeguard the Company's ability to continue as a going concern. Management reviews its capital management approach on an ongoing basis and believes its approach given the relative size of the Company is reasonable.

Although the Company has been successful at raising funds in the past through obtaining debt financing from current shareholders, it is uncertain whether it can continue this financing methodology.

The Board of Directors does not establish a quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company's capital stock and debt is not subject to any externally imposed capital requirements and the Company did not change its approach to capital management during the year.

5. MINERAL PROPERTY

	2010	2009
La Forma Property	$ -	$ 1

The Company owned a 100% interest in the La Forma Property located in the vicinity of Mount Freegold, Yukon Territory. Due to a lack of foreseeable activity at La Forma property as a result of the Company's focus on the oil and gas sector, the investment in the La Forma Property had been reduced to a nominal value of $1. The Company maintained the claims in good standing.

In July 2010, the Company sold the La Forma Property to a company with a shareholder who is also a significant shareholder of the Company for total consideration of $1,200,000. The proceeds of $1,200,000 were applied against the principal balance of the note payable owed by the Company (note 8). The transaction has been recorded at its fair value and the Company has recorded a gain of $1,199,999 on the disposal of the La Forma Property. The value of this property was based on assessment as determined by an independent financial analyst.

6. PETROLEUM AND NATURAL GAS INTERESTS

	2010		
	Cost	Accumulated Depletion	Net Book Value
10% Working Interest - Garrington Property	$ 454,761	$ 8,179	$ 446,582

	2009		
	Cost	Accumulated Depletion	Net Book Value
10% Working Interest - Garrington Property	$ 454,402	$ 2,095	$ 452,307

Included in the Company's petroleum and natural gas interests are amounts totaling $881 (2009 - $862), net of accumulated depletion, representing the ARO.

On September 1, 2009, the Company sold its interest in a separate prior Garrington Property for total consideration of $2,600,000 comprised of $2,150,000 in cash and a 10% working interest in the currently held Garrington area oil producing property valued at $450,000. The value of this property was based on the present value of cash flows which were expected to be received on this property as determined by an independent engineer.

The transaction was accounted for at the monetary consideration received and the fair value of the oil producing property received. The Company recognized a gain of $2,112,580 on the sale of the prior Garrington Property.

In the year ended December 31, 2010, the Company performed a ceiling test on its petroleum and natural gas interests and no impairment charge (2009 - $nil) was recorded. The impairment test is calculated by the Company's independent engineering consultant using future prices for the years 2011 to 2015 as follows:

	2011	2012	2013	2014	2015
Crude oil $/bbl	$81.65	$85.80	$89.15	$92.09	$94.94
Natural gas $/Mcf	$ 4.05	$ 4.70	$ 5.20	$ 5.70	$ 6.15
NGLs $/bbl	$49.12	$51.60	$53.84	$55.84	$57.84

Subsequent to 2015, prices are expected to increase by approximately 2% per year.

7. LOAN PAYABLE

	2010	2009
Unsecured loan payable, with interest at 10% per annum, due June 1, 2012	$ 1,215,036	$ 1,128,444
Less: Current portion	-	1,128,444
	$ 1,215,036	$ -

7. LOAN PAYABLE (Continued)

Included in the loan payable is accrued interest of $349,112 (2009 - $262,520).

In 2010, the lender amended terms of the original loan agreement dated October 1, 2006 (amended in 2008) to extend the maturity date of the loan from June 1, 2010 to June 1, 2012. All pre-existing terms of the loan are still existent for the amended loan.

8. 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
Accretion of discount	197,332	277,388	474,720
Carrying amount, December 31, 2008	2,472,693	3,475,833	5,948,526
Accretion of discount	221,722	311,674	533,396
Payment of principal	-	(284,330)	(284,330)
Carrying amount, December 31, 2009	2,694,415	3,503,177	6,197,592
Accretion of discount	221,158	117,660	338,818
Payment of principal (note 5)	-	(1,977,152)	(1,977,152)
Carrying amount, December 31, 2010	$ 2,915,573	$ 1,643,685	$ 4,559,258

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 are due for repayment on January 1, 2014 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.

The interest rates on the notes payable for years one through five are considered to be below market for financial instruments with similar risk profile and above market for years six through eight. 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 valued to reflect an interest rate of 12%.

All assets of the Company have been pledged as security for the loan and notes payable. 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. Both notes are carried at amortized cost using the effective interest method.

Included in accounts payable and accrued liabilities is accrued interest of $120,754 (2009 - $nil). As at December 31, 2010, the face value of the Second Note is $1,555,372 (2009 - $3,532,524).

9. ASSET RETIREMENT OBLIGATIONS

The Company's AROs result from its net ownership interest in its oil and gas property including the well site, gathering system and processing facility. The Company estimates the total undiscounted amount of cash flows required to settle its AROs is approximately $4,600 (2009 - $4,500). The majority of the costs will be incurred after 2025. An inflation factor of 1.5% has been applied to the estimated asset retirement cost. A discount rate of 10% was used to calculate the fair value of the AROs.

A reconciliation of the AROs is provided below:

	2010	2009
Balance, beginning of year	$ 862	$ 319,672
Increase in estimated future obligations	19	862
Discharged obligations due to sale of petroleum and natural gas interests (note 6)	-	(340,982)
Accretion expense	-	21,310
Balance, end of year	$ 881	$ 862

10. CAPITAL STOCK

(a) Authorized

Unlimited number of common shares without par value
Unlimited number of Class "A" preferred shares without par value

(b) Issued

	Number of Shares	Amount
Balance, December 31, 2008	4,396,093	$ 16,221,855
Issued for cash		
Private placement	4,230,769	550,000
Balance, December 31, 2010 and 2009	8,626,862	$ 16,771,855

On October 14, 2009, the Company issued 4,230,769 common shares at $0.13 per share for gross proceeds of $550,000 under a non-brokered private placement.

(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 2009 or 2010.

11. CONTRIBUTED SURPLUS

Balance, December 31, 2010, 2009 and 2008	$	309,143

12. INCOME TAXES

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

		2010		2009
Income tax expense computed at Canadian statutory rates	$	88,000	$	139,000
Adjustment due to effective rate attributable to income taxes of other jurisdictions		3,000		4,000
Change in timing differences for the year		118,000		70,000
Reduction in future income taxes resulting from statutory rate reduction		12,000		112,000
Change in valuation allowance		(221,000)		(325,000)
Alberta royalty tax credit received		(10,922)		(44,034)
	$	(10,922)	$	(44,034)

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

		2010		2009
Future income tax assets				
Non-capital loss carry-forwards	$	754,000	$	695,000
Capital loss carry-forwards		102,000		102,000
Asset retirement obligations and other		1,000		1,000
Tax value in excess of book value of equipment		622,000		622,000
Tax value in excess of book value of petroleum and natural gas interests		1,122,000		1,402,000
Total future tax asset		2,601,000		2,822,000
Valuation allowance		(2,601,000)		(2,822,000)
Net future income tax	$	-	$	-

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

12. INCOME TAXES (Continued)

The Company has accumulated non-capital losses for income tax purposes of approximately $3,015,000. These losses expire as follows:

2014	$	319,000
2015		441,000
2026		408,000
2027		566,000
2028		280,000
2029		454,000
2030		547,000
	$	3,015,000

The Company has cumulative capital losses of $817,000 and unused cumulative development and exploration expenses of $4,934,000 that may be carried forward indefinitely.

13. RELATED PARTY TRANSACTIONS

As at December 31, 2010, the amount of transactions made with parties not at arm's length to the Company not otherwise disclosed consists of the following:

(a) Included in accounts receivable is $27,312 (2009 - $14,410) due from a company with a shareholder who is also a significant shareholder of the Company.

(b) Directors' and officer's fees of $18,000 (2009 - $18,000) were paid to directors and an officer.

(c) The loan payable of $1,215,036 (2009 - $1,128,444) is payable to a significant shareholder of the Company.

(d) Included in accounts payable is $7,999 (2009 - $7,999) in trade payables and $81,459 (2009 - $nil) in interest payable due to a significant shareholder of the Company.

(e) Included in accounts payable is $2,582 (2009 - $1,160) of trade payables and $39,294 (2009 - $nil) of interest payable, which are payable to a company with a shareholder who is also a significant shareholder of the Company.

(f) Administration fees of $194,200 (2009 - $240,000) were paid or payable to a company controlled by a significant shareholder of the Company.

The amounts due to related parties (aside from the notes payable, as stated in note 8) are non-interest-bearing, unsecured and due on demand.

All of the above transactions and balances, except items in note 8, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

14. SEGMENTED INFORMATION

The Company's one reportable operating segment is the exploration and development of petroleum and natural gas interests.