

STRIKEWELL ENERGY CORP.

Condensed Interim Consolidated Financial Statements September 30, 2011 and 2010

Index

Notice of No Auditor Review of Interim Financial Statements

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102, Part 4, subsection 4.3(3) released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed interim financial statements as at and for the nine months ended September 30, 2011 and 2010.

Strikewell Energy Corp.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited - Prepared by Management)

(Expressed in Canadian dollars)

	Notes	As at September 30, 2011	As at December 31, 2010 (Note 14)
ASSETS			
Current Assets			
Cash		\$ 14,294	\$ 252,115
Accounts receivable		51,112	34,861
		65,406	286,976
Non-Current Assets			
Petroleum and Natural Gas Interests	7, 13a&b	442,645	447,543
		\$ 508,051	\$ 734,519
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	12	\$ 690,418	\$ 368,724
		690,418	368,724
Non-Current Liabilities			
Loan Payable	8, 12c	1,279,980	1,215,036
Notes Payable	9	4,496,097	4,559,258
Decommissioning Obligation	10	1,744	1,842
		6,468,239	6,144,860
SHAREHOLDERS' DEFICIENCY			
Capital Stock	11	16,771,855	16,771,855
Deficit		(22,732,043)	(22,182,196)
		(5,960,188)	(5,410,341)
		\$ 508,051	\$ 734,519

Nature of operations and going concern (note 1)

Approved on behalf of the Board:

_____ "Chris Schultze"

Director

_____ "Alistair Palmer"

Director

The notes are an integral part of these condensed interim consolidated financial statements.

Strikewell Energy Corp.

Condensed Interim Consolidated Statements of Operations

For the period ended September 30, 2011, with comparative figures for 2010

(Unaudited - Prepared by Management)

(Expressed in Canadian dollars)

	Notes	For the nine months ended September 30, 2011	For the three months ended September 30, 2011	For the nine months ended September 30, 2010 (Note 14)	For the three months ended September 30, 2010 (Note 14)
Revenue					
Petroleum and natural gas	\$	123,938	49,465	\$ 80,084	22,542
		123,938	49,465	80,084	22,542
Direct expenses					
Production		10,052	1,350	15,549	21,130
Royalties		36,665	8,047	24,343	6,790
Depreciation and accretion		4,800	1,600	5,625	1,875
		51,517	10,997	45,517	29,795
Operating income		72,421	38,468	34,567	(7,253)
General and administrative expenses					
Administration fees	12f	90,993	30,000	164,200	40,600
Directors' and Officers' fees	12b	13,500	4,500	13,500	4,500
Filing and transfer agent fees		15,613	2,345	17,225	3,617
Interest		482,232	159,905	496,911	117,811
Office and miscellaneous		5,676	1,819	11,504	3,069
Professional fees		14,254	576	25,090	5,554
		622,268	199,145	728,430	175,151
Loss before other items		(549,847)	(160,677)	(693,863)	(182,404)
Other items					
Gain on sale of property	7	-	-	1,199,999	1,199,999
		-	-	1,199,999	1,199,999
Income (loss) and total comprehensive income (loss) for period		(549,847)	(160,677)	506,136	1,017,595
Basic and diluted earnings per share	\$	(0.06)	(0.02)	\$ 0.06	0.12
Weighted average number of common shares outstanding					
		8,626,862	8,626,862	8,626,862	8,626,862

See accompanying notes to condensed interim consolidated financial statements

Strikewell Energy Corp.

Condensed Interim Consolidated Statement of Changes in Shareholders' Equity For the period ended September 30, 2011 and 2010

(Unaudited - Prepared by Management)

(Expressed in Canadian dollars)

	Share Capital	Deficit	Total
Balance as at January 1, 2011	16,771,855	(22,182,196)	(5,410,341)
Share-based compensation	-	-	-
Issue of share capital	-	-	-
Total comprehensive loss for the period	-	(549,847)	(549,847)
Balance as as September 30, 2011	16,771,855	(22,732,043)	(5,960,188)

	Share Capital	Deficit	Total
Balance as at January 1, 2010	16,771,855	(22,501,830)	(5,729,975)
Share-based compensation	-	-	-
Issue of share capital	-	-	-
Total comprehensive income (loss) for the period	-	506,136	506,136
Balance as as September 30, 2010	16,771,855	(21,995,694)	(5,223,837)

Strikewell Energy Corp.

Condensed Interim Consolidated Statements of Cash Flows

For the period ended September 30, 2011, with comparative figures for 2010

(Unaudited - Prepared by Management)

(Expressed in Canadian dollars)

Notes	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010 (Note 14)
Operating activities		
Net income (loss) for the period	\$ (549,847)	\$ 506,136
Items not involving cash:		
Depletion and accretion	4,800	5,625
Accretion of discount on notes payable	(63,161)	274,448
Accrued interest on loan payable	64,944	64,947
	(543,264)	851,156
Changes in non-cash working capital:		
Accounts receivable	(16,251)	(18,738)
Accounts payable and accrued liabilities	321,694	(20,911)
	305,443	(39,649)
Cash used in operating activities	(237,821)	811,507
Investing activities		
Petroleum and natural gas interests	-	(340)
Cash used in investing activities	-	(340)
Financing activities		
Repayment on notes payable	-	(1,977,152)
Cash used in financing activities	-	(1,977,152)
Inflow (outflow) of cash	(237,821)	(1,165,985)
Cash, beginning of period	252,115	1,382,109
Cash, end of period	\$ 14,294	\$ 216,124

See accompanying notes to condensed interim consolidated financial statements

STRIKEWELL ENERGY CORP.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

For the Nine Months Ended September 30, 2011 and 2010

1. NATURE OF OPERATIONS

Strikewell Energy Corp. (the “Company”) is a petroleum and natural gas producer engaged in the exploration and development of natural gas properties in Alberta, Canada.

Strikewell Energy Corp. is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia. The Company’s shares are listed on the TSX Venture Exchange.

The head office, principal address and records office of the Company are located at 609 West Hastings Street, Suite 900, Vancouver, British Columbia, Canada, V6B 4W4. The Company’s registered address is 885 West Georgia Street, Suite 800, Vancouver, British Columbia, Canada, V6H 3H1.

These condensed interim 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 \$625,012 (December 31, 2010 –\$81,748), an accumulated deficit of \$22,732,043 (December 31, 2010 - \$22,182,196), limited resources, no significant source of 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 condensed interim 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. BASIS OF PREPARATION

(a) Statement of compliance:

These are the Company’s third quarter IFRS interim consolidated financial statements for the periods covered by the first International Financial Reporting Standards (“IFRS”) consolidated annual financial statements to be presented in accordance with IFRS for the year ending December 31, 2011 and IFRS 1 First-Time Adoption of IFRS has been applied.

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For the Nine Months Ended September 30, 2011 and 2010

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued):

The impact of the transition from Canadian Generally Accepted Accounting Principles (“GAAP”) to IFRS is explained in notes 13 and 14 and in the first quarter financial statements filed on SEDAR.

These interim consolidated financial statements have been prepared on a historical cost basis except for the provision for decommissioning obligation, which is recorded at management’s best estimate. In addition these consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These consolidated interim financial statements were prepared in accordance with International Accounting Standard 34 Interim Financial Reporting. They do not include all the information required for full annual financial statements.

The accounting policies set out below have been applied consistently to all periods presented in preparing the opening balance sheet at January 1, 2010 (refer to the first quarter financial statements filed on SEDAR) for purposes of transition to IFRS. The accounting policies have been applied consistently by the Company and its subsidiary.

(b) Functional and presentation currency:

These interim consolidated financial statements are presented in Canadian dollars, which is the Company’s functional and reporting currency.

(c) Use of estimates and judgements:

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that may affect the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Significant areas requiring the use of estimates include the collectability of accounts receivable, the recoverability of petroleum and natural gas interest costs, the fair value of financial instruments, balance of accrued liabilities, the assumptions used to discount the notes payable to fair value, determination of decommissioning 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.

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2. BASIS OF PREPARATION (continued)

(c) Use of estimates and judgements (continued):

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

Reserve estimates impact a number of the areas referred to above, in particular the valuation of property, plant and equipment and the calculation of depletion and depreciation.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these interim consolidated financial statements, and have been applied consistently by the Company and its subsidiary.

(a) Basis of consolidation

(i) Subsidiaries:

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Jointly controlled operations and jointly controlled assets:

Many of the Company's oil and natural gas activities involve jointly controlled assets. The interim consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(iii) Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Financial instruments

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. Non-

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

(i) Non-derivative financial instruments (continued):

derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents:

Cash and cash equivalents comprise cash on hand with original maturities of three months or less that are readily convertible into cash and which are subject to insignificant risk of changes in value.

Financial assets at fair value through profit or loss:

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in net income when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in net income. The Company has designated cash and cash equivalents at fair value.

Other:

Other non-derivative financial instruments, such as trade and other receivables, loans and borrowings, and trade and other payables, are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments:

The Company is not engaged in any financial derivative contracts.

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).

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

Additional disclosure on the measurement of fair value of financial instruments has been provided in note 4.

(c) 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.

(d) Petroleum and natural gas interests

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into Cost Generating Units (“CGU’s”) for impairment testing. The Company has one CGU: the Alberta, Garrington well. The Company has adopted the IRFS 1 exemption which allows the value of the exploration and evaluation assets to be consistent with the Canadian GAAP historical net book value.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in net income as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in net income as incurred.

Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proven reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Petroleum and natural gas interests (continued)

Depletion and depreciation (continued):

certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a minimum of 90 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and a maximum 10 percent statistical probability that it will be less. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered proven if future economic feasibility is supported by either actual production or conclusive formation test. The area of reservoir considered proven includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, or both, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

(e) Impairment

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit” or “CGU”). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment (continued)

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(f) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in net income except to the extent that if the income tax expense related to items recognized directly in equity, the income tax expense would also be recognized in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the statement of financial position liability method. Under this method, deferred tax assets and liabilities are recognized in relation to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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Notes to Condensed Interim Consolidated Financial Statements
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(Expressed in Canadian Dollars)

For the Nine Months Ended September 30, 2011 and 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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.

(h) Share based payments

The grant date fair value of options granted to employees is recognized over the vesting period as compensation expense, within general and administrative expenses, with a corresponding increase in contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. If the options expire unexercised, the recorded amount is transferred to deficit.

(i) Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision.

(j) Recent accounting pronouncements

Certain new standards, interpretations, amendments and improvements to the existing standards were issued by the International Accounting Standards Board ("IASB") or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2010 or later periods. The standards impacted that are applicable to the Company are as follows:

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Notes to Condensed Interim Consolidated Financial Statements
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For the Nine Months Ended September 30, 2011 and 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Recent accounting pronouncements (continued)

IFRS 9 – Financial Instruments

In an effort to reduce the complexity of accounting for financial instruments, the IASB has engaged in a project to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities, which may affect the Company's accounting for its financial assets. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to a company's own credit risk out of earnings and recognized the change in other comprehensive income. The standard is not applicable until January 1, 2013 but is available for early adoption. The Company has yet to assess the full impact of IFRS 9.

IFRS 10 – Consolidation

IFRS 10 was issued on May 12, 2011. This standard requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC12, Consolidation – Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. The standard is not applicable until January 1, 2013 but is available for early adoption. The Company has yet to assess the full impact of IFRS 10.

IFRS 13 – Fair Value Measurement

IFRS 13 was issued on May 12, 2011. This is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The standard is not applicable until January 1, 2013 but is available for early adoption. The Company has yet to assess the full impact of IFRS13.

4. FINANCIAL INSTRUMENTS

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect

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4. FINANCIAL INSTRUMENTS (continued)

estimated fair values. At September 30, 2011, the Company's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, loan and notes payable.

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

The two notes payable 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%. A change in the interest rate to 18% would result in additional charges of approximately \$482,000 to the statement of operations over the remaining duration of the notes payable.

The loan payable is due for repayment on June 1, 2012 and bears interest at 10% per annum. A change in the interest rate to 18% would result in an additional charge of approximately \$46,000 to the statement of operations over the remaining duration of the loan.

5. FINANCIAL RISK MANAGEMENT

(a) Overview

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- market risk
- credit risk
- liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk.

The Board of Directors oversees managements' establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and the Company's activities on an ongoing basis.

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5. FINANCIAL RISK MANAGEMENT (continued)

(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 fair value as at September 30, 2011.

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.

The Company manages interest rate risk by maintaining an investment policy that focuses on preservation of capital and liquidity.

The Company is not exposed to significant interest rate risk as the Company's debt is primarily at fixed interest rates.

(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 ratings by a primary ratings agency. Trade receivables included in accounts receivable primarily consists of revenues due from continuing customers for the sale of petroleum and natural gas.

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

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5. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk (continued)

	2011	2010
Trade receivables	\$ 42,996	\$ 27,312

The Company believes there is minimal exposure to credit risk in regard to the accounts receivable as trade receivables are due from an oil and gas marketer.

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying obligations as they become due. The Company assesses its liquidity risk by forecasting cash flows required by operations and anticipated financing activities. The Company has a cash balance at September 30, 2011 of \$14,294 (December 31, 2010 - \$252,115) and accounts receivable of \$51,112 (December 31, 2010 - \$34,861). At September 30, 2011, the Company had accounts payable and accrued liabilities of \$690,418 (December 31, 2010 - \$368,724) and a working capital deficiency of \$625,012 (December 31, 2010 – \$81,748). 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 September 30, 2011.

Due Date	Accounts Payable and Accrued Liabilities	Loan Payable (note 8)	Note Payable (note 9)	Total
0 – 90 days	\$ 591,896	\$ -	\$ -	\$ 591,896
90 – 365 days	98,522	-	-	98,522
More than 1 year	-	1,279,980	4,496,097	5,776,077
	\$ 690,418	\$ 1,279,980	\$ 4,496,097	\$ 6,466,495

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5. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

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

Due Date	Accounts Payable and Accrued Liabilities	Loan Payable (note 7)	Notes Payable (note 8)	Total December 31, 2010
0 – 90 days	\$ 270,202	\$ -	\$ -	\$ 270,202
90 – 365 days	98,522	-	-	98,522
More than 1 year	-	1,215,036	4,559,258	5,774,294
	\$ 368,724	\$ 1,215,036	\$ 4,559,258	\$ 6,143,018

6. CAPITAL MANAGEMENT

The Company defines its capital 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.

7. PETROLEUM AND NATURAL GAS INTERESTS

	September 30, 2011	December 31, 2010
Oil and natural gas interests	\$ 455,624	\$ 454,761
Accumulated depletion and depreciation	(12,979)	(7,218)
Net carrying amount	\$ 442,645	\$ 447,543

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7. PETROLEUM AND NATURAL GAS INTERESTS (continued)

Included in the Company's petroleum and natural gas interests are amounts totaling \$1,744 net of accumulated depletion, representing the decommissioning liability.

The Company owned a 100% interest in a mineral property, the La Forma property, located in the vicinity of Mount Freegold, Yukon Territory. Due to a lack of foreseeable activity at the property as a result of the Company's focus on the oil and gas sector, the value of the property had been reduced to a nominal value of \$1. The Company maintained the claims in good standing. In July 2010, the Company completed a sale of the property to a related party for \$1,200,000. As part of the transaction, deemed proceeds of \$1,200,000 from the sale were used to reduce debt owing to the purchasing company. The sale resulted in a net gain of \$1,999,999 recorded to income in that period.

Security:

At September 30, 2011 and 2010 all of the Company's properties are pledged as security for the loan and notes payable.

Contingencies:

Although the Company believes that it has title to its oil and natural gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges.

8. LOAN PAYABLE

	September 30, 2011	December 31, 2010
Unsecured loan payable, with interest at 10% per annum, due June 1, 2012	\$ 1,279,980	\$ 1,215,036

Included in the loan payable is accrued interest of \$414,056 (2010 - \$349,112).

In May 2010, the lender amended terms of the original loan agreement to extend the maturity date of the loan from June 1, 2010 to June 1, 2012. All other terms of the loan remained the same.

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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)	(1,268,290)	(2,087,198)
Carrying amount, January 1, 2006	1,896,387	2,548,564	4,444,951
Accretion of discount	178,458	254,279	432,737
Carrying amount, December 31, 2006	2,074,845	2,802,843	4,877,688
Accretion of discount	200,516	287,507	488,023
Carrying amount, December 31, 2007	2,275,361	3,090,351	5,365,712
Accretion of discount	197,332	285,700	483,032
Carrying amount, December 31, 2008	2,472,693	3,376,051	5,848,744
Accretion of discount	221,722	324,054	545,776
Payment of principal	-	(284,330)	(284,330)
Carrying amount, December 31, 2009	2,694,415	3,415,775	6,110,190
Accretion of discount	221,160	205,062	426,222
Payment of principal	-	(1,977,152)	(1,977,152)
Carrying amount, December 31, 2010	\$ 2,915,575	\$ 1,643,685	\$ 4,559,260
Amortization of discount	(43,934)	(19,229)	(63,163)
Carrying amount, September 30, 2011	2,871,641	1,624,456	4,496,097

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.

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9. NOTES PAYABLE (continued)

Included in accounts payable and accrued liabilities is accrued interest of \$481,204 (2010 - \$120,754). During the nine-months ended September 30, 2011, the Company has paid \$120,000 in interest expense applicable to the Second Note.

10. DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations 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 decommissioning obligations is approximately \$4,600. The majority of the costs will be incurred after 2025. As of September 30, 2011, an inflation factor of 3.1% has been applied to the estimated asset retirement cost and a risk free discount rate of 3.5% was used to calculate the fair value of the decommissioning obligations.

A reconciliation of the decommissioning obligations is provided below:

September 30, 2011 and December 31, 2010	September 30, 2011	Dec. 31, 2010 (note 14)
Balance, beginning of period	\$ 1,842	\$ 1,842
Depletion	(98)	-
Balance, end of period	\$ 1,744	\$ 1,842

11. SHARE CAPITAL

(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, Sept. 30, 2011 and December 31, 2010	8,626,862	\$ 16,771,855

(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.

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11. SHARE CAPITAL (continued)

- (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 2010 or to September 30, 2011.

12. RELATED PARTY TRANSACTIONS

As at September 30, 2011, the amount of transactions made with parties not at arm's length to the Company not otherwise disclosed consists of the following:

- (a) Directors' fees of \$13,500 (2010 - \$13,500) were paid to directors.
- (b) The loan payable of \$1,279,980 (2010 - \$1,215,036) is payable to a significant shareholder of the Company.
- (c) Included in accounts payable is \$7,999 (2010 - \$7,999) in trade payables due to a significant shareholder of the Company.
- (d) Administration fees of \$90,000 (2010 - \$164,200) were paid or payable to a company controlled by a significant shareholder of the Company.

The amounts due to related parties (aside from the loan and notes payable, as stated in notes 7 and 8) are non-interest bearing, unsecured and due on demand.

13. IFRS

IFRS 1 *First-time Adoption of International Reporting Standards* sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied.

Please refer to the first quarter financial statements filed on SEDAR for the exemptions applied to the Company's opening statement of financial position dated January 1, 2010.

- (a) Property, Plant and Equipment:

In July 2009, the International Accounting Standards Board approved amendments and released 'Additional Exemptions for First-time Adopters' which prescribes transitional exemptions for oil and gas companies following full cost accounting. The amendment allows an entity that used full cost accounting under Canadian GAAP to elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under Canadian GAAP and to measure oil and natural gas assets in the development or production phases by allocating the amount determined under Canadian GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of the date of transition, subject to an impairment test as prescribed under IFRS. This

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13. IFRS (continued)

(a) Property, Plant and Equipment (continued):

exemption allows the Company to apply IFRS to its full cost pools on a prospective basis, from date of transition to IFRS.

(b) Decommissioning Obligation:

The major difference between the current Canadian standard and IFRS is the discount rate used to measure the Company's reclamation liabilities ("asset retirement obligations" or "ARO" under Canadian GAAP) Under the current Canadian standard, a credit adjusted risk free rate is used, whereby the IFRS allows the use of a risk free rate when risks are factored into the expected cash flows.

(c) Impairment:

Under IFRS, if indication of impairment is identified, the asset's carrying value is compared to the asset's discounted cash flows. If the discounted cash flows are less than the carrying value, the asset is impaired by an amount equal to the difference between the discounted cash flows and the carrying value. Under Canadian GAAP, if indication of impairment is identified, the asset's carrying value is compared to the asset's undiscounted cash flows. The Company completed an impairment review of its assets at January 1, 2010 and December 31, 2010 and concluded that the assets were not impaired in accordance with IFRS.

(d) Contributed Surplus:

Included in contributed surplus at December 31, 2010 were amounts relating to stock based compensation. When warrants or stock options were exercised, amounts in contributed surplus relating to the exercise of instruments were transferred to capital stock. Under Canadian GAAP, amounts relating to expired warrants or stock options remained in contributed surplus indefinitely. Under IFRS, such amounts are transferred to deficit.

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14. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS

The Canadian GAAP statement of financial position at December 31, 2010 has been reconciled to IFRS as follows:

				December 31, 2010		
Notes	Canadian GAAP	Effect of transition to IFRS	IFRS			
ASSETS						
Current assets						
Cash	\$ 252,115	\$	\$	252,115		
Accounts receivable	34,861			34,861		
Non-current assets						
Mineral Properties	-			-		
Petroleum and Natural Gas Interests	446,582	961		447,543		
	\$ 733,558	\$ 961	\$	734,519		
LIABILITIES AND EQUITY						
Current liabilities						
Accounts payable and accrued liabilities	\$ 368,724			368,724		
Current portion of loan payable	-			-		
	368,724			368,724		
Non-current liabilities						
Loan Payable	1,215,036			1,215,036		
Notes Payable	4,559,258			4,559,258		
Asset Retirement Obligation	881	961		1,842		
	6,143,899	961		6,144,860		
SHAREHOLDERS' DEFICIENCY						
Capital Stock	16,771,855			16,771,855		
Contributed Surplus	309,143	(309,143)		-		
Deficit	(22,491,339)	309,143		(22,182,196)		
	(5,410,341)			(5,410,341)		
	\$ 733,558	\$ 961	\$	734,519		

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14. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS (continued)

The Company has reviewed all changes required under IFRS and determined that there are no adjustments required to the prior period statements of operations or the statements of cash flows.

The Canadian GAAP statement of loss and comprehensive loss for the nine-months ended September 30, 2010 has been reconciled to IFRS as follows:

Nine-months ended September 30, 2010			
Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue			
Petroleum and natural gas	\$ 80,084	\$ -	\$ 80,084
	80,084	-	80,084
Direct expenses			
Production	15,549		15,549
Royalties	24,343		24,343
Depreciation and accretion	5,625		5,625
	45,517	-	45,517
Operating income	34,567	-	34,567
General and administrative expenses			
Administration fees	164,200		164,200
Directors' and Officers' fees	13,500		13,500
Filing and transfer agent fees	17,225		17,225
Interest	496,911		496,911
Office and miscellaneous	11,504		11,504
Professional fees	25,090		25,090
	728,430	-	728,430
Loss before other items	(693,863)	-	(693,863)
Other items			
Gain on sale of petroleum & natural gas interests	1,199,999		1,199,999
	1,199,999	-	1,199,999
Net income (loss) and comprehensive income (loss)	506,136	-	506,136
Basic and diluted loss per share	\$ 0.06	\$ -	\$ 0.06
Weighted average number of common shares outstanding	8,626,862		8,626,862

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14. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS (continued)

The Canadian GAAP statement of loss and comprehensive loss for the three-months ended September 30, 2010 has been reconciled to IFRS as follows:

Three-months ended September 30, 2010			
Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue			
Petroleum and natural gas	\$ 22,542	\$ -	\$ 22,542
	22,542	-	22,542
Direct expenses			
Production	21,130		21,130
Royalties	6,790		6,790
Depreciation and accretion	1,875		1,875
	29,795	-	29,795
Operating income	(7,253)	-	(7,253)
General and administrative expenses			
Administration fees	40,600		40,600
Directors' and Officers' fees	4,500		4,500
Filing and transfer agent fees	3,617		3,617
Interest	117,811		117,811
Office and miscellaneous	3,069		3,069
Professional fees	5,554		5,554
	175,151	-	175,151
Loss before other items	(182,404)	-	(182,404)
Other items			
Gain on sale of petroleum & natural gas interests	1,199,999		1,199,999
	1,199,999	-	1,199,999
Net income (loss) and comprehensive income (loss)	1,017,595	-	1,017,595
Basic and diluted loss per share	\$ 0.12	\$ -	\$ 0.12
Weighted average number of common shares outstanding	8,626,862		8,626,862

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14. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS (continued)

The Canadian GAAP statement of Shareholders' equity for the nine-months ended September 30, 2010 has been reconciled to IFRS as follows:

		Nine-months ended September 30, 2010			
	Notes	Share Capital	Contributed Surplus	Deficit	Total
Beginning balance		16,771,855	309,143	(22,810,973)	(5,729,975)
Effect of transition to IFRS	13d	-	(309,143)	309,143	-
Total comprehensive income for the period				506,136	506,136
Balance as at September 30, 2010		16,771,855	-	(21,995,694)	(5,223,837)