# **Strikewell Energy Corp.** *(fka FM Resources Corp.)*

## Interim Consolidated Financial Statements

**For the nine months ended September 30, 2006 and 2005**

**Strikewell Energy Corp.** *(fka FM Resources Corp.)*

## Consolidated Balance Sheets

(unaudited - prepared by management)

*(Expressed in Canadian dollars)*

| | As at September 30, 2006 | As at December 31, 2005 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | $ **230,911** | $ 40 |
| Prepaid expenses | **447** | - |
| Accounts receivable | **319,866** | 3,040 |
| | **551,223** | 3,080 |
| **Oil and Gas Properties** | **3,435,957** | 1 |
| | $ **3,987,180** | $ 3,081 |
| **LIABILITIES** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | $ **381,292** | $ 1,778,763 |
| Loans payable | **870,425** | 1,084,424 |
| | **1,251,717** | 2,863,187 |
| **Promissory Notes** | **4,490,571** | - |
| **Asset Retirement Obligation** | **209,764** | - |
| | **5,952,052** | 2,863,187 |
| **SHAREHOLDERS' DEFICIENCY** | | |
| **Share Capital** | **16,225,999** | 15,425,998 |
| **Contributed Surplus** | **305,000** | 305,000 |
| **Deficit** | **(18,495,871)** | (18,591,104) |
| | **(1,964,872)** | (2,860,106) |
| | $ **3,987,180** | $ 3,081 |

**On behalf of the Board:**

*"Chris Schultze"* **Director**

*"Luard Manning"* **Director**

## Strikewell Energy Corp. *(fka FM Resources Corp.)*

## Consolidated Statements of Operations and Deficit

(unaudited - prepared by management)

*(Expressed in Canadian dollars)*

| | For the three months ended September 30, 2006 | For the three months ended September 30, 2005 | For the nine months ended September 30, 2006 | For the nine months ended September 30, 2005 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Oil and gas revenue | $ 496,216 | $ - | $ 1,415,634 | $ - |
| Interest income | 228 | 9 | 427 | 17 |
| | 496,444 | 9 | 1,416,061 | 17 |
| **Direct expenses** | | | | |
| Depreciation and depletion | 79,463 | - | 238,389 | - |
| Production | 287,477 | - | 563,707 | - |
| Royalties | 75,658 | - | 255,279 | - |
| | 442,597 | - | 1,057,374 | - |
| **Operating income (loss)** | 53,846 | 9 | 358,686 | 17 |
| **General and administrative expenses** | | | | |
| Administration | 25,546 | 18,000 | 67,596 | 54,000 |
| Filing and transfer agent fees | 4,080 | 1,706 | 13,149 | 8,138 |
| Interest and bank charges | 31,708 | 73,658 | 95,124 | 209,204 |
| Office and miscellaneous | 3,954 | 5,913 | 21,655 | 20,897 |
| Professional fees | 3,808 | 10,500 | 61,429 | 13,073 |
| Office rent | 1,500 | 1,500 | 4,500 | 4,500 |
| | 70,597 | 111,277 | 263,454 | 309,812 |
| **Net income (loss) for the period** | (16,750) | (111,268) | 95,233 | (309,795) |
| **Deficit,** beginning of period | (18,479,121) | (18,348,590) | (18,591,104) | (18,150,063) |
| **Deficit,** end of period | $ (18,495,871) | $ (18,459,858) | $ (18,495,871) | $ (18,459,858) |
| **Earnings (loss) per share - basic and diluted** | | | $ 0.02 | (0.13) |
| **Weighted average number of common shares outstanding - basic and diluted** | | | 3,887,627 | 2,397,216 |

**Strikewell Energy Corp.** *(fka FM Resources Corp.)*

## Consolidated Statement of Cash Flows

(unaudited - prepared by management)

*(Expressed in Canadian dollars)*

| | For the three months ended September 30, 2006 | For the three months ended September 30, 2005 | For the nine months ended September 30, 2006 | For the nine months ended September 30, 2005 |
|---|---|---|---|---|
| **Cash provided by (used in):** | | | | |
| **Operating activities** | | | | |
| Net income (loss) for the period | $ (16,750) | $ (111,268) | $ 95,233 | $ (309,795) |
| Adjustment for items not involving cash: | | | | |
| Accrued interest | 31,708 | - | 95,124 | - |
| Depletion and accretion | 79,463 | - | 238,389 | - |
| | 94,421 | (111,268) | 428,746 | (309,795) |
| Changes in non-cash working capital: | | | | |
| Increase in pre-paid expenses | - | 129 | (447) | - |
| Increase in accounts receivable | 205,968 | 1,439 | (316,826) | (1,167) |
| Increase in accounts payable | (243,165) | 95,115 | (146,619) | 284,420 |
| | 57,224 | (14,585) | (35,146) | (26,542) |
| **Investing activities** | | | | |
| Acquisition of oil and gas properties on business acquisition | - | - | (3,488,759) | - |
| Promissory Note issued on business acquisition | - | - | 4,524,130 | - |
| Debt restructure on business acquisition | - | - | (1,569,355) | - |
| | - | | (533,984) | - |
| **Financing activities** | | | | |
| Loan payable | - | 14,200 | - | 21,200 |
| shares issued on business acquisition | - | - | 800,000 | - |
| | - | 14,200 | 800,000 | 21,200 |
| **Increase (decrease) in cash and cash equivalents** | 57,224 | (385) | 230,870 | (5,342) |
| **Cash and cash equivalents, beginning of period** | 173,687 | 415 | 40 | 5,372 |
| **Cash and cash equivalents, end of period** | $ 230,911 | $ 30 | $ 230,911 | $ 30 |

**The accounting policies and methods of application used in the preparation of these interim unaudited Consolidated Financial Statements are consistent with those used in the Company's most recent annual audited Consolidated Financial Statements. The interim unaudited Consolidated Financial Statements should be read in conjunction with the annual audited Consolidated Financial Statements and the notes thereto for the year ended December 31, 2005.**

## 1. NATURE OF OPERATIONS

The Company was incorporated under the laws of British Columbia and its principal business activities include the exploration and development of mineral properties. Effective January 1, 2006, the Company, acquired a wholly-owned subsidiary, Strikewell Capital Corp. whose principal business activity is the exploration and development of oil and gas properties in Alberta, Canada. The Company has changed its principal business activities to the oil and gas production business.

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation:
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Strikewell Capital Corp. All material intercorporate transactions and balances have been eliminated upon consolidation.

(b) Use of estimates

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

(c) Cash and cash equivalents

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

(d) Revenue recognition

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Depletion of exploration and development costs is provided using the unit-of-production method based on estimated proven petroleum and natural gas reserves.

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

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

(f) 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.

(g) Earnings (loss) per share

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

(h) Asset retirement obligations

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

**3. FINANCIAL INSTRUMENTS**

(a) Fair value

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

(b) Interest rate risk

The Company's loans payable and promissory notes are at fixed interest rates and, therefore, the Company's exposure to interest rate cash flow risk on the debt is minimal.

(c) Credit risk

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

(d) Currency risk

The Company is not exposed to foreign currency fluctuations.