STRIKEWELL ENERGY CORP.

Consolidated Financial Statements
December 31, 2008 and 2007

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, 2008 and 2007 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 financial statements.

"*Christopher Schultze" (signed)*

Christopher Schultze
President
April 15, 2009

SmytheRatcliffe
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

TO THE SHAREHOLDERS OF STRIKEWELL ENERGY CORP.

We have audited the consolidated balance sheets of Strikewell Energy Corp. as at December 31, 2008 and 2007 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, British Columbia
April 15, 2009

7th Floor, Marine Building
355 Burrard Street, Vancouver, BC
Canada V6C 2G8

Fax: 604.688.4675
Telephone: 604.687.1231
Web: SmytheRatcliffe.com

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STRIKEWELL ENERGY CORP.
Consolidated Balance Sheets
December 31

	2008	2007
		(note 15)
Assets (note 9)		
Current		
Cash	$ 70,776	$ 495,542
Accounts receivable (note 14)	248,596	196,960
Prepaid expenses	30,137	0
	349,509	692,502
Deposits (note 5)	185,739	80,174
Mineral Property (note 6)	1	1
Petroleum and Natural Gas Interests (note 7)	889,621	1,494,118
	$ 1,424,870	$ 2,266,795
Liabilities		
Current		
Accounts payable and accrued liabilities (note 14)	$ 498,045	$ 536,044
Due to joint interest participants (note 14)	404,893	0
Current portion of loan payable (notes 8 and 14)	0	955,259
	902,938	1,491,303
Loan Payable (notes 8 and 14)	1,041,851	0
Notes Payable (notes 9 and 14)	5,948,526	5,473,806
Asset Retirement Obligations (note 10)	319,672	238,359
	8,212,987	7,203,468
Shareholders' Deficit		
Capital Stock (note 11)	16,221,855	16,221,855
Contributed Surplus (note 12)	309,143	309,143
Deficit	(23,319,115)	(21,467,671)
	(6,788,117)	(4,936,673)
	$ 1,424,870	$ 2,266,795

Nature of operations and going concern (note 1)

Approved by the Board:

"Christopher Schultze" (signed)
……………………………………………………………………
Chris Schultze, Director

"Luard Manning" (signed)
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Luard Manning, Director

See notes to consolidated financial statements.

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

		2008		2007
Revenue				
Petroleum and natural gas	$	1,506,469	$	1,401,493
Miscellaneous		4,400		53,596
		1,510,869		1,455,089
Direct Expenses				
Production		621,082		418,317
Royalties		306,129		273,895
Depletion and accretion		1,307,034		773,995
		2,234,245		1,466,207
		(723,376)		(11,118)
Administrative Expenses				
Interest		747,467		692,904
Administration fees (note 14(g))		252,000		252,000
Professional fees		58,299		85,013
Office and miscellaneous		25,090		22,349
Directors' and officers' fees		24,000		12,000
Filing and transfer agent fees		21,212		13,008
Bad debts recovery		0		(32,526)
		1,128,068		1,044,748
Net Loss and Comprehensive Loss for Year		(1,851,444)		(1,055,866)
Deficit, Beginning of Year		(21,467,671)		(20,411,805)
Deficit, End of Year	$	(23,319,115)	$	(21,467,671)
Basic and Diluted Loss Per Share	$	(0.42)	$	(0.24)
Weighted Average Number of Common Shares Outstanding		4,396,093		4,396,093

See notes to consolidated financial statements.

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

		2008		2007
				(note 15)
Operating Activities				
Loss for year	$	(1,851,444)	$	(1,055,866)
Items not involving cash				
Depletion and accretion		1,307,034		773,995
Accretion of discount on notes payable		474,720		482,379
Accrued interest on loan payable		86,592		38,565
		16,902		239,073
Changes in non-cash working capital				
Accounts receivable		(51,636)		14,057
Prepaid expenses		(30,137)		0
Accounts payable and accrued liabilities		16,159		66,079
Due to joint interest participants		404,893		0
		339,279		80,136
Cash Provided by Operating Activities		356,181		319,209
Investing Activities				
Deposits		(105,565)		(79,727)
Petroleum and natural gas interests		(675,382)		(94,791)
Cash Used in Investing Activities		(780,947)		(174,518)
Inflow (Outflow) of Cash		(424,766)		144,691
Cash, Beginning of Year		495,542		350,851
Cash, End of Year	$	70,776	$	495,542
Supplemental Information				
Non-cash transactions				
Increase in asset retirement obligations	$	65,976	$	19,569
Accounts payable relating to petroleum and natural gas interests	$	5,675	$	59,833
Interest paid	$	200,000	$	129,888
Income taxes paid	$	0	$	0

1. NATURE OF OPERATIONS AND GOING CONCERN

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

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 deficit of $553,429 (2007 - $798,801), an accumulated deficit of $23,319,115 (2007 - $21,467,671), limited resources, no source of operating cash flow and no assurances that sufficient funding will be available to conduct further exploration and development of its mineral interests. The Company will require additional equity financing to meet its administrative overhead costs, and to continue exploration work on its mineral properties in 2009.

The application of the going concern concept is dependent upon the Company's ability to generate future profitable operations and receive continued financial support from its shareholders. 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 given the current difficult conditions.

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.

Since inception, the Company has financed its operations primarily through the sale of common shares and the issuance of notes and loan payable. For the foreseeable future it will need to rely upon financing from shareholders and/or debt holders for sufficient working capital and to finance further acquisitions and exploration on petroleum and natural gas interests yet to be acquired. Long-term profitability of the Company will be directly related to the success of its petroleum and natural gas interests.

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. All significant intercompany balances and transactions have been eliminated on consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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.

(c) Comprehensive income

Comprehensive income or loss is defined as the change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income and other comprehensive income. Other comprehensive income or loss refers to items recognized in comprehensive income or loss that are excluded from operations calculated in accordance with Canadian GAAP.

The Company has no items of other comprehensive income in any period presented. Therefore, net loss as presented in the Company's statements of operations equals comprehensive loss.

(d) 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, the fair value of financial instruments, 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) 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.

(f) Petroleum and natural gas interests

The Company follows the full cost method of accounting for petroleum and natural gas interests whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized. These costs include lease acquisition costs, geological and geophysical expenses, drilling costs of successful, as well as unsuccessful wells, and overhead charges related directly to exploration. The carrying value of petroleum and natural gas interests are not intended to report replacement or current market values.

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

Costs associated with unproven reserves are reviewed by management to determine whether they have become impaired. If impairment occurs, the carrying value of the related interest will be reduced to reflect the estimated net realizable value. The estimate will be based on the then current conditions and it is possible that changes could occur that would adversely affect management's estimates resulting in further write-downs of the carrying value of the interest.

Depletion and accretion of petroleum and natural gas interests is computed using the unit-of-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 units of revenue based on current prices.

(g) 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 future net revenue from proved reserves using expected future prices and costs as well as the income tax legislation in effect at the period-end. Impairment is recognized when the carrying value of the assets is greater than the undiscounted future net revenues, 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 discounted rate used is a credit adjusted risk-free interest rate.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) 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. The Company collects production from joint interest participants for delivery to marketers and remits the proportionate interest to joint interest participants.

(i) Income taxes

The Company uses the asset and liability method for accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are 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.

(j) Earnings per share

Basic earnings 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. The treasury stock method 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 period. 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.

(k) Stock-based compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Stock-based compensation (Continued)

For directors and employees the options are recognized over the vesting period, and for non-employees the options are 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.

(l) 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 capitalized amount is depleted on a straight-line basis over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

(m) Adoption of new accounting standards

Effective January 1, 2008, the Company adopted the following standards of the Canadian Institute of Chartered Accountants ("CICA") Handbook:

(i) Financial Instruments – Disclosures (Section 3862) and Financial Instruments – Presentation (Section 3863)

Sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments – Disclosures and Presentation", revising its disclosure requirements, and carrying forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 3862 specifies disclosures that enable users to evaluate: (i) the significance of financial instruments for the entity's financial position and performance; and (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Adoption of new accounting standards (Continued)

(i) Financial Instruments – Disclosures (Section 3862) and Financial Instruments – Presentation (Section 3863) (Continued)

As a result of the adoption of these standards, additional disclosures on the risks of certain financial instruments have been included in note 3.

(ii) Capital Disclosures (Section 1535)

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. The entity's disclosure should include information about its objectives, policies and procedures for managing capital and disclose whether it has complied with any capital requirements to which it is subject and the consequences of non-compliance.

As a result of the adoption of this standard, additional disclosures have been included in note 4.

(n) Future accounting changes

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

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

(ii) Business combinations

In January 2009, the CICA 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Future accounting changes (Continued)

(ii) Business combinations (Continued)

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. The Company is currently evaluating the impact of the adoption of these sections.

(iii) Goodwill

In February 2008, the CICA issued Handbook Section 3064, “Goodwill and Intangible Assets”, replacing Section 3062, “Goodwill and Other Intangible Assets” and Section 3450, “Research and Development Costs”. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. This new section is effective for the Company on January 1, 2009. The Company is in the process of assessing the impact of this new section on its consolidated financial statements.

(iv) EIC-173, Credit Risk and the Fair value of Financial Assets and Financial Liabilities

In January 2009 the Emerging Issues Committee ("EIC") of the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. EIC-173 is to be applied retrospectively without restatement of prior periods in interim and annual financial statements for periods ending on or after the date of issuance of EIC-173. The Company will adopt this recommendation in its fair value determinations for its fiscal year ended December 31, 2009 and is currently assessing the impact of this change on its consolidated financial statements.

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 are designated as loans and receivables; and accounts payable and accrued liabilities, due to joint interest participants, loan payable and notes payable are designated as other financial liabilities.

(a) Fair value

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities and due to joint interest participants approximate their fair value 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, commodity price 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 rates do not have an impact on the fair value as at December 31, 2008.

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 fluctuations in interest rate changes due to the Company's debt being kept at fixed rates.

(ii) Commodity price risk

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

A 10% change in the price of petroleum and natural gas during the year would have changed net loss by $132,192.

(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 or commodity price risk. The Company is not exposed to significant other price risk.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(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. Accounts receivable primarily consists of GST refunds due from Canada Revenue Agency and 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:

GST receivable	$ 41,989
Trade receivable	206,607
Total accounts receivable	$ 248,596

The Company believes that there is minimal exposure to credit risk in regard to the amounts receivable as they are due from a governmental agency and the trade receivables are due from major oil and gas marketers.

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet commitments. 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 from operations and anticipated financing activities. The Company has a cash balance at December 31, 2008 in the amount of $70,776 (2007 - $495,542) and accounts receivable of $248,596 (2007 - $196,960). At December 31, 2008, the Company had accounts payable and accrued liabilities of $498,045 (2007 - $536,044) and a working capital deficiency of $553,429 (2007 - $798,801). In 2008, the Company was only able to generate $16,902 in cash inflows from operating activities before changes in non-cash working capital. 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.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(d) Liquidity Risk (continued)

The amounts listed below are the remaining contractual maturities for financial liabilities held by the Company as at December 31, 2008.

Due Date		Accounts Payable and Accrued Liabilities		Loan Payable (note 8)		Note Payable (note 9)		Total
2009	$	902,938	$	88,757	$	195,965	$	1,187,660
2010		0		1,086,230		261,286		1,347,516
2011 - 2013		0		0		2,939,466		2,939,466
2014		0		0		6,532,149		6,532,149
	$	902,938	$	1,174,987	$	9,928,866	$	12,006,791

4. CAPITAL MANAGEMENT

The Company defines its capital structure to include debt and shareholders' equity. Capital requirements are driven by the Company's exploration activities on its petroleum and oil and natural gas interests. Management's objective is to ensure that 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 that 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 due to the current difficult economic conditions.

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. DEPOSITS

Deposits consist of cash advances paid to operators that are to be applied towards future expenditures for petroleum and natural gas interests.

6. MINERAL PROPERTY

	2008	2007
La Forma Property	$ 1	$ 1

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

7. PETROLEUM AND NATURAL GAS INTERESTS

		2008	
	Cost	Accumulated Depletion	Net Book Value
Garrington Property	$ 4,459,856	$ 3,570,235	$ 889,621

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

Included in the Company's petroleum and natural gas interests are amounts totaling $60,100 (2007 - $81,386), net of accumulated depletion, representing the ARO.

The Company applied the ceiling test to its capitalized assets at December 31, 2008 and 2007 and determined that there was no impairment of such costs.

8. LOAN PAYABLE

	2008	2007
Unsecured loan payable, with interest at 10% per annum, compounded semi-annually, due June 1, 2010	$ 1,041,851	$ 955,259
Less: Current portion	0	955,259
	$ 1,041,851	$ 0

Included in the loan payable is accrued interest of $175,927 (2007 - $89,335).

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

9. NOTES PAYABLE

	Vendor Note	Second Note	Total
Face value of notes payable	$ 2,715,295	$ 3,816,854	$ 6,532,149
Discount to effective rate	(818,908)	(1,151,128)	(1,970,036)
Carrying amount, January 1, 2006	1,896,387	2,665,726	4,562,113
Accretion of discount	178,458	250,856	429,314
Carrying amount, December 31, 2006	2,074,845	2,916,582	4,991,427
Accretion of discount	200,516	281,863	482,379
Carrying amount, December 31, 2007	2,275,361	3,198,445	5,473,806
Accretion of discount	197,332	277,388	474,720
Carrying amount, December 31, 2008	$ 2,472,693	$ 3,475,833	$ 5,948,526

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. Management has determined that an interest rate of 12% per annum over the term of the loan would be a closer approximation to a fair value interest rate. Accordingly, the carrying value of the promissory notes has been discounted to reflect an interest rate of 12%.

All assets of the Company have been pledged as security for 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 measured at the carrying amount using the effective interest method.

10. ASSET RETIREMENT OBLIGATIONS

The Company's AROs result from net ownership interest in oil and gas properties including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its AROs is approximately $786,100 (2007 - $483,300). The majority of the costs will be incurred after 2012. An inflation factor of 1.5% has been applied to the estimated asset retirement cost. A rate of 10% was used to calculate the fair value of the AROs.

10. ASSET RETIREMENT OBLIGATIONS (Continued)

A reconciliation of the AROs is provided below:

	2008	2007
Balance, beginning of year	$ 238,359	$ 198,900
Increase in estimated future obligations	65,976	19,569
Accretion expense	15,337	19,890
Balance, end of year	$ 319,672	$ 238,359

11. CAPITAL STOCK

(a) Authorized

Unlimited number of common shares without par value
Unlimited number of Class “A” preferred shares without par value

(b) Issued

	2008		2007	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning and end of year	4,396,093	$ 16,221,855	4,396,093	$ 16,221,855

(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.

(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 2007 or 2008.

12. CONTRIBUTED SURPLUS

Balance, December 31, 2007 and 2008	$ 309,143

13. INCOME TAXES

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

	2008	2007
Income tax benefit computed at Canadian statutory rates	$ (558,000)	$ (327,000)
Accretion of discount on notes payable	147,000	150,000
Depletion and accretion	386,000	228,000
Other temporary differences	(148,000)	(142,000)
Change in timing differences for the year	(315,000)	(169,000)
Reduction in future income taxes resulting from statutory rate reduction	20,000	29,000
Change in valuation allowance	468,000	232,000
	$ 0	$ 0

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

	2008	2007
	26%	26%
Future income tax assets		
Non-capital loss carry-forwards	$ 721,000	$ 619,000
Capital loss carry-forwards	106,000	106,000
Asset retirement obligations	83,000	62,000
Tax value in excess of book value of equipment	756,000	732,000
Tax value in excess of book value of petroleum and natural gas interests	1,693,000	1,528,000
Total future tax asset	3,359,000	3,047,000
Valuation allowance	(3,207,000)	(2,772,000)
Future tax asset	152,000	275,000
Future income tax liability		
Tax value in excess of book value of notes payable	(152,000)	(275,000)
Net future income tax	$ 0	$ 0

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

13. INCOME TAXES (Continued)

The Company has accumulated non-capital losses for income tax purposes of approximately $2,774,000. These losses expire as follows:

2009	$	214,000
2010		255,000
2014		319,000
2015		441,000
2026		408,000
2027		566,000
2028		571,000
	$	2,774,000

The Company has cumulative capital losses of $817,000 and unused cumulative development and exploration expenses of $7,400,700 that may be carried forward indefinitely.

14. RELATED PARTY TRANSACTIONS

Accounts payable and accrued liabilities includes $118,951 (2007 - $263,540) due to related parties with respect to amounts detailed below. Amounts due to joint interest participants includes $359,810 (2007 - $nil) due to related parties with respect to amounts detailed below. The aggregate amount of transactions made with parties not at arm's length to the Company not otherwise disclosed consists of the following:

(a) Included in due to joint interest participants is $292,192 (2007 - $52,000) due to a company whose former CEO is a significant shareholder of the Company.

(b) Included in accounts receivable is $nil (2007 - $142,644) due from a company under significant influence from a director who is a significant shareholder of the Company.

(c) Directors' fees of $24,000 (2007 - $12,000) were paid to directors.

(d) Included in loan payable is $1,041,851 (2007 - $955,259) payable to a significant shareholder of the Company.

(e) Included in accounts payable is $7,999 (2007 - $7,999) in trade payables, and $110,952 (2007 - $29,493) of interest payable to a significant shareholder of the Company.

(f) Included in accounts payable is $nil (2007 - $73,374) of trade payables, and $67,179 (2007 - $152,674) of interest payable to a company controlled by a significant shareholder of the Company. Included in prepaid expenses is $7,681 (2007 - $nil) paid to this company.

(g) Administration fees of $252,000 (2007 - $252,000) were paid or payable to a company controlled by a significant shareholder of the Company.

14. RELATED PARTY TRANSACTIONS (Continued)

(h) Included in due to joint interest participants is $67,618 (2007 - $nil) due to a company controlled by a significant shareholder of the Company.

(i) Miscellaneous income of $4,400 (2007 - $nil) was received from companies controlled by a significant shareholder of the Company.

The amounts due to related parties (aside from the loan and notes payable) stated in note 9 are non-interest bearing, unsecured and due on demand.

All of the above transactions and balances, except items in note 9, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

15. COMPARATIVE FIGURES

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