STRIKEWELL ENERGY CORP.

Interim Consolidated Financial Statements

For the six months ended June 30, 2010 and 2009

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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 interim financial statements as at and for the six months ended June 30, 2010 and 2009.

Strikewell Energy Corp.

Interim Consolidated Balance Sheets

(Unaudited - Prepared by Management)

(Expressed in Canadian dollars)

		As at June 30 2010		As at December 31 2009
ASSETS				
Current				
Cash	$	**296,407**	$	1,382,109
Accounts receivable (note 15)		**114,945**		103,877
		411,352		1,485,986
Mineral Properties (note 6)		**1**		1
Petroleum and Natural Gas Interests (note 7)		**455,028**		452,307
	$	**866,381**	$	1,938,294
LIABILITIES				
Current				
Accounts payable and accrued liabilities (note 15)	$	**292,271**	$	341,371
Current portion of loan payable (notes 8 and 15c))		**-**		1,128,444
		292,271		1,469,815
Loan Payable (notes 8 and 15(c))		**1,171,740**		-
Notes Payable (notes 9)		**5,642,940**		6,197,592
Asset Retirement Obligation (note 10)		**862**		862
		7,107,813		7,668,269
SHAREHOLDERS' DEFICIENCY				
Capital Stock (note 11)		**16,771,855**		16,771,855
Contributed Surplus (note 12)		**309,143**		309,143
Deficit		**(23,322,430)**		(22,810,973)
		(6,241,432)		(5,729,975)
	$	**866,381**	$	1,938,294

Nature of operations and going concern (note 1)

On behalf of the Board:

"Chris Schultze" **Director**

"Luard Manning" **Director**

See accompanying notes to consolidated financial statements

Strikewell Energy Corp.

Interim Consolidated Statements of Operations and Deficit

(Unaudited - Prepared by Management)

(Expressed in Canadian dollars)

		For the six months ended June 30 2010	For the three months ended June 30 2010		For the six months ended June 30 2009	For the three months ended June 30 2009
Revenue						
Petroleum and natural gas	$	57,542	26,371	$	356,872	142,829
Miscellaneous		-	-		4,200	1,200
		57,542	26,371		361,072	144,029
Direct expenses						
Production		(5,581)	(12,763)		331,293	105,326
Royalties		17,553	6,501		77,092	37,840
Depreciation and accretion		3,750	1,875		110,512	2,520
		15,722	(4,387)		518,897	145,686
Operating income		41,820	30,758		(157,826)	(1,657)
General and administrative expenses						
Administration fees (note 14(f))		123,600	61,800		120,000	60,000
Directors' and Officers' fees (note 14(b))		9,000	4,500		9,000	4,500
Filing and transfer agent fees		13,608	6,769		14,932	4,863
Interest		379,100	185,839		400,208	200,105
Office and miscellaneous		8,435	4,671		26,903	12,382
Professional fees		19,536	18,592		14,942	7,242
		553,279	282,171		585,985	289,092
Loss before other items and income tax recovery		(511,459)	(251,413)		(743,811)	(290,749)
Income tax recovery		-	-		57,447	-
Net loss and comprehensive loss for period		(511,459)	(251,413)		(686,364)	(290,749)
Deficit, beginning of period		(22,810,971)	(23,071,017)		(23,319,114)	(23,714,730)
Deficit, end of period	$	(23,322,430)	(23,322,430)	$	(24,005,479)	(24,005,479)
Basic and diluted loss per share	$	(0.06)	(0.03)	$	(0.16)	(0.08)
Weighted average number of common shares outstanding		8,626,862	8,626,862		4,396,093	4,396,093

See accompanying notes to consolidated financial statements

Strikewell Energy Corp.

Interim Consolidated Statements of Cash Flows

(Unaudited - Prepared by Management)

(Expressed in Canadian dollars)

		For the six months ended June 30 2010	For the three months ended June 30 2010		For the six months ended June 30 2009	For the three months ended June 30 2009
Operating activities						
Net income (loss) for the period	$	(511,459)	(251,413)	$	(686,364)	(290,749)
Items not involving cash:						
Depletion and accretion		3,750	1,875		110,512	2,520
Accretion of discount on notes payable		(554,650)	(183,791)		258,930	129,465
Accrued interest on loan payable		43,296	21,648		43,296	21,648
		(1,019,063)	(411,681)		(273,626)	(137,116)
Changes in non-cash working capital:						
Accounts receivable		(11,068)	(19,568)		28,171	15,098
Prepaid expenses		-	-		18,421	13,539
Accounts payable and accrued liabilities		(49,100)	23,727		126,258	71,882
Due to joint venture participants		-	-		44,819	37,558
		(60,168)	4,159		217,669	138,077
Cash provided by operating activities		(1,079,231)	(407,522)		(55,957)	961
Investing activities						
Deposits		-	-		161,830	11,261
Petroleum and natural gas interests		(6,471)	(6,471)		(53,594)	(5,402)
Cash used in investing activities		(6,471)	(6,471)		108,236	5,859
Inflow (outflow) cash		(1,085,702)	(413,993)		52,278	6,819
Cash, beginning of period		1,382,109	710,400		70,776	116,234
Cash, end of period	$	296,407	296,407	$	123,054	123,054

See accompanying notes to consolidated financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

Strikewell Energy Corp. (the "Company") was incorporated under the laws of British Columbia and its principal business activities are oil and gas production and exploration. 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 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 of $119,081 (2009 - $16,171), an accumulated deficit of $23,322,430 (2009 - $22,810,973), 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 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 2010.

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 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.

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 viability of the Company will be directly related to the success of its petroleum and natural gas interests.

2. SIGNIFICANT ACCOUNTING POLICIES

The interim 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.

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

(a) Basis of consolidation

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

(b) Financial instruments

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

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

The Company classifies 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).

(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 income (loss) as presented in the Company's statements of operations equals comprehensive income (loss).

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Petroleum and natural gas interests (Continued)

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 barrels of production. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proved reserves and excludes the cost of undeveloped properties until it is determined that proved reserves are attributable to the property or impairment has occurred.

(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 discount rate used is a credit adjusted risk-free interest rate.

(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.

(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.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

For directors and employees 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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Asset retirement obligations ("ARO") (Continued)

obligations arise from the acquisition, development, construction and normal operation of oil and gas properties, plant and equipment.

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

(m) Adoption of new accounting standards

Effective January 1, 2009, the Company adopted the following standards of the Canadian Institute of Chartered Accountants ("CICA") Handbook:

(i) Measurement of Fair Value

CICA Handbook Section 3862.27 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and then lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below.

(a) Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
(b) 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
(c) Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Adoption of new accounting standards (Continued)

(ii) Goodwill and Intangible Assets (Section 3064) Financial Statement Concepts (Amended Section 1000)

These sections establish revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company adopted these standards on January 1, 2009. The adoption of these standards did not have a significant impact on the Company's interim consolidated financial statements.

(n) Future accounting changes

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

In 2006, the 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 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The first unaudited interim financial statements under IFRS will be for the quarter ending March 31, 2011, with comparative financial information for the quarter ending March 31, 2010. The first audited annual financial statements will be for the year ending December 31, 2011, with comparative financial information for the year ending December 31, 2010. The Company anticipates a significant increase in disclosures resulting from the adoption of IFRS and is identifying and assessing the impact of this change in valuation and additional disclosure requirements, as well as implementing systems changes that will be necessary to compile the required disclosures.

(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.

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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) EIC-175, Multiple Deliverable Arrangements

In December 2009, the CICA issued EIC-175, "Multiple Deliverable Revenue Arrangements". This Abstract addresses some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Specifically, the Abstract addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. The provisions of EIC-175 must be applied beginning in the first annual fiscal period commencing on or after January 1, 2011 but early adoption is permitted. The Company is currently evaluating the impact of the adoption of this Abstract.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

(a) Fair value

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

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3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) Fair value (Continued)

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.

As the carrying value of the Company's financial instruments approximate their fair value, disclosure is not made of their level in the fair value hierarchy.

(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 June 30, 2010.

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

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.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) 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:

		2010		2009
Trade receivables	$	44,170	$	45,886

The Company believes there is minimal exposure to credit risk in regard to the accounts receivable as 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 satisfying obligations as they become due. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated financing activities. The Company has a cash balance at June 30, 2010 of $296,407 (2009 - $1,382,109) and accounts receivable of $114,945 (2009 - $103,877). At June 30, 2010, the Company had accounts payable and accrued liabilities of $292,271 (2009 - $341,371) and a working capital of $119,081 (2009 –$16,171). Based on the current funds held, the Company will need to rely upon financing from shareholders and/or debt holders to obtain sufficient working capital. There is no assurance that such financing will be available on terms and conditions acceptable to the Company.

3. FINANCIAL INSTRUMENTS AND 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 June 30, 2010.

Due Date	Accounts Payable and Accrued Liabilities	Loan Payable (note 8)	Note Payable (note 9)	Total
0 – 90 days	$ 73,350	$ -	$ -	$ 73,350
90 – 365 days	108,288	-	-	108,288
More than 1 year	-	1,171,740	5,642,940	6,814,680
	$ 181,638	$ 1,171,740	$ 5,642,940	$ 6,996,318

4. CAPITAL MANAGEMENT

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

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

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

5. 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

	2010	2009
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 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.

In May 2010, the Company arranged a debt set-off and property transfer agreement with a Vendor Company (the "**Debt Set-Off Agreement**"). In July 2010 following TSXV and shareholder approval, the Company completed the debt set-off and property transfer transaction with the Vendor Company. The Company's debt owing to the Vendor Company has been reduced by $1,200,000 in exchange for the transfer of 100% ownership of the Company's mineral property interests located in the Yukon Territory.

7. PETROLEUM AND NATURAL GAS INTERESTS

2010	Cost	Accumulated Depletion	Net Book Value
10% Working Interest - Garrington Property	$ 460,873	$ 5,845	$ 455,028

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

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

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

7. PETROLEUM AND NATURAL GAS INTERESTS (Continued)

The transaction has been accounted for based on the fair value of monetary consideration received and the fair value of the oil producing property received. The carrying value of the Company's interest in the Garrington Property given up as at September 30, 2009 was $828,402 and the value of total AROs discharged due to the sale of the Garrington Property as at September 30, 2009 was $340,982.

8. LOAN PAYABLE

	2010	2009
Unsecured loan payable, with interest at 10% per annum, compounded semi-annually, due June 1, 2012	$ 1,171,740	$ 1,128,444
Less: Current portion	-	1,128,444
	$ 1,171,740	$ -

Included in the loan payable is accrued interest of $305,816 (2009 - $219,223).

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 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
Accretion of discount	221,722	311,674	533,396
Payment of principal	-	(284,330)	(284,330)
Carrying amount, December 31, 2009	2,694,415	3,503,177	6,197,592
Accretion of discount	107,358	115,142	222,500
Payment of principal	-	(777,152)	(777,152)
Carrying amount, June 30, 2010	$ 2,801,773	$ 2,841,167	$ 5,642,940

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 Company has made payments on the principal totaling $1,061,482.

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 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.

10. ASSET RETIREMENT OBLIGATIONS

The Company's AROs result from its 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 $4,500 (2009 - $4,500). The majority of the costs will be incurred after 2025. An inflation factor of 1.5% has been applied to the estimated asset retirement cost. A rate of 10% was used to calculate the fair value of the AROs.

A reconciliation of the AROs is provided below:

		2010		**2009**
Balance, beginning of year	$	862	$	319,672
Increase in estimated future obligations		-		862
Discharged obligations due to sale of petroleum and natural gas interests (note 7)		-		(340,982)
Accretion expense		-		21,310
Balance, end of year	$	862	$	862

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

	Number of Shares		Amount
Balance, December 31, 2009	8,626,862	$	16,771,855
Issued for cash			
Private placement	-		-
Balance, June 30, 2010	8,626,862	$	16,771,855

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

(c) The Class "A" preferred shares are issuable in series; each series to have rights and restrictions as determined by the board of directors. The issuance of preferred shares of any series is subject to regulatory approval. There are no preferred shares outstanding.

11. CAPITAL STOCK (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 2009 or to date in 2010.

12. CONTRIBUTED SURPLUS

Balance, June 30, 2010, December 31, 2009, 2008 and 2007	$	309,143

13. INCOME TAXES

The Company has accumulated non-capital losses for income tax purposes of approximately $2,723,000. These losses expire as follows:

2010	$	255,000
2014		319,000
2015		441,000
2026		408,000
2027		566,000
2028		280,000
2029		454,000
	$	2,723,000

The Company has cumulative capital losses of $817,000 and unused cumulative development and exploration expenses of $6,134,000 that may be carried forward indefinitely.

14. RELATED PARTY TRANSACTIONS

Accounts payable and accrued liabilities includes $7,999 (2009 - $9,159) 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 accounts receivable is $11,238 (2009 - $14,410) due from a company under significant influence from a director who is a significant shareholder of the Company.

(b) Directors’ fees of $9,000 (2009 - $9,000) were paid to directors.

14. RELATED PARTY TRANSACTIONS (Continued)

(c) Included in loan payable is $1,171,740 (2009 - $1,128,444) payable to a significant shareholder of the Company.

(d) Included in accounts payable is $7,999 (2009 - $7,999) in trade payables.

(e) Included in accounts payable is $23,261 (2009 - $1,160) of trade payables.

(f) Administration fees of $123,600 (2009 - $120,000) were paid or payable to a company controlled by a significant shareholder of the Company.

The amounts due to related parties (aside from the loan and notes payable, as stated in notes 8 and 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. SEGMENTED INFORMATION

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

16. SUBSEQUENT EVENTS

In July 2010 following TSXV and shareholder approval, the Company completed the debt set-off and property transfer transaction with the Vendor Company. The Company's debt owing to the Vendor Company has been reduced by $1,200,000 in exchange for the transfer of 100% ownership of the Company's mineral property interests located in the Yukon Territory.

In July 2010, the Company entered into a Revised Management Services Agreement ("Revised MSA") effective August 1, 2010 with a private management company wholly-owned by John R, Hislop, a shareholder and debt holder of the Company. Under the Revised MSA, the management company is to assist the Company in providing management, administration, compliance, accounting, and information services, as well as provide office space and utilities for our Company. The Revised MSA shall continue on a month to month basis until terminated by either one of the parties. Pursuant to the Revised MSA a monthly administrative fee of $10,000 plus any out of pocket expenses and specialized management expenses incurred shall be paid to the management company.