STRIKEWELL ENERGY CORP.

Consolidated Financial Statements
December 31, 2011 and 2010
(Expressed in Canadian Dollars)

<u>Index</u>

SmytheRatcliffe
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF STRIKEWELL ENERGY CORP.

We have audited the accompanying consolidated financial statements of Strikewell Energy Corp., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive income (loss), changes in shareholders' deficiency and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Strikewell Energy Corp. as at December 31, 2011, December 31, 2010 and January 1, 2010, and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $765,929 during the year ended December 31, 2011 and, as of that date, the Company's current liabilities exceeded its current assets by $2,140,358. These conditions, along with other matters set forth in note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, British Columbia
April 18, 2012

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Strikewell Energy Corp.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	Notes		**As at December 31, 2011**		As at December 31, 2010 (Note 17)		As at January 1, 2010 (Note 17)
ASSETS							
Current Assets							
Cash		**$**	**23,998**	$	252,115	$	1,382,109
Accounts receivable			**24,845**		34,861		103,877
			48,843		286,976		1,485,986
Non-Current Assets							
Mineral property	7		**-**		-		1
Petroleum and natural gas interests	8		**440,036**		447,543		453,384
		$	**488,879**	$	734,519	$	1,939,371
LIABILITIES AND EQUITY							
Current Liabilities							
Accounts payable and accrued liabilities	9, 15	**$**	**887,573**	$	368,724	$	341,371
Current portion of loan payable	10		**1,301,628**		-		1,128,444
			2,189,201		368,724		1,469,815
Non-Current Liabilities							
Loan payable	10		-		1,215,036		-
Notes payable	11		**4,474,204**		4,559,258		6,197,592
Decommissioning obligations	12		**1,744**		1,842		1,939
			6,665,149		6,144,860		7,669,346
SHAREHOLDERS' DEFICIENCY							
Capital Stock	13		**16,771,855**		16,771,855		16,771,855
Deficit			**(22,948,125)**		(22,182,196)		(22,501,830)
			(6,176,270)		(5,410,341)		(5,729,975)
		$	**488,879**	$	734,519	$	1,939,371

Approved on behalf of the Board:

"Christopher Schultze" **Director**

"Alistair Palmer" **Director**

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

Strikewell Energy Corp.

Consolidated Statements of Comprehensive Income (Loss)
Years Ended December 31

(Expressed in Canadian dollars)

	Notes		2011		2010 (Note 17)
Revenue					
Petroleum and natural gas		**$**	**173,023**	$	121,490
			173,023		121,490
Direct expenses					
Production			**33,495**		66,535
Royalties			**50,904**		23,713
Depletion and accretion			**7,409**		6,084
			91,808		96,332
Operating income			**81,215**		25,158
Other expenses (income)					
Administration fees	15		**110,993**		194,200
Directors' and officers' fees	15		**18,000**		18,000
Filing and transfer agent fees			**16,659**		18,066
Interest on long-term debt			**642,137**		607,720
Office and miscellaneous			**8,751**		13,565
Professional fees			**50,604**		64,894
			847,144		916,445
Loss before other item and income tax recovery			**(765,929)**		(891,287)
Other item					
Gain on sale of mineral property	7		**-**		(1,199,999)
Income (loss) before income tax recovery			**(765,929)**		308,712
Income tax recovery			**-**		10,922
Net income (loss) and total comprehensive income (loss) for year		**$**	**(765,929)**	$	319,634
Basic and diluted earnings (loss) per share		**$**	**(0.09)**	$	0.04
Weighted average number of common shares outstanding			**8,626,862**		8,626,862

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

Strikewell Energy Corp.

Consolidated Statements of Changes in Shareholders' Deficiency
For the years ended December 31

(Expressed in Canadian dollars)

	Number of shares	Capital Stock	Deficit	Total
Balance as at January 1, 2011	8,626,862	$16,771,855	$ (22,182,196)	$ (5,410,341)
Comprehensive loss for the year	-	-	(765,929)	(765,929)
Balance as at December 31, 2011	8,626,862	**$16,771,855**	**$ (22,948,125)**	**$ (6,176,270)**

	Number of shares	Capital Stock	Deficit	Total
Balance as at January 1, 2010	8,626,862	$16,771,855	$ (22,501,830)	$ (5,729,975)
Comprehensive income for the year	-	-	319,634	319,634
Balance as at December 31, 2010	8,626,862	**$16,771,855**	**$ (22,182,196)**	**$ (5,410,341)**

The notes are an integral part of theses consolidated financial statements.

Strikewell Energy Corp.

Consolidated Statements of Cash Flows
Years ended December 31

(Expressed in Canadian dollars)

	Notes	2011	2010 (Note 17)
Operating activities			
Net income (loss) for the year		**$ (765,929)**	$ 319,634
Items not involving cash:			
Depletion and accretion	8	**7,409**	6,084
Accretion of discount on notes payable	11	**(85,054)**	338,818
Accrued interest on loan payable		**86,592**	86,592
Gain on sale of mineral property	7	**-**	(1,199,999)
		(756,982)	(448,871)
Changes in non-cash working capital:			
Accounts receivable		**10,016**	69,016
Accounts payable and accrued liabilities		**519,108**	68,224
		529,124	137,240
Cash used in operating activities		**(227,858)**	(311,631)
Investing activities			
Petroleum and natural gas interests		**(259)**	(41,211)
Cash used in investing activities		**(259)**	(41,211)
Financing activities			
Repayment on notes payable		**-**	(777,152)
Cash used in financing activities		**-**	(777,152)
Outflow of cash		**(228,117)**	(1,129,994)
Cash, beginning of year		**252,115**	1,382,109
Cash, end of year		**$ 23,998**	$ 252,115
Supplemental Information			
Non-cash transactions			
Reduction of notes payable due to transfer of mineral property		$ -	$ 1,200,000
Decrease in decommissioning liabilities		$ (98)	$ (97)
Accounts payable relating to petroleum and natural gas interests		$ -	$ 259
Interest paid		$ -	$ 65,322
Income taxes recovered		$ -	$ (10,922)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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

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

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

These 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 a net loss of $765,929 (2010 – net income of $319,634), is currently unable to self-finance operations, has a working capital deficiency of $2,140,358 (December 31, 2010 – $81,748, January 1, 2010 - working capital $16,171), an accumulated deficit of $22,948,125 (December 31, 2010 - $22,182,196, January 1, 2010 - $22,501,830), limited resources, no significant source of operating cash flow and no assurances that sufficient funding will be available to conduct further exploration and development of its petroleum and natural gas interests. The Company will require additional equity financing to meet its administrative overhead costs, and to continue exploration work on its petroleum and natural gas interests in 2012.

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

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

2. BASIS OF PREPARATION

(a) Statement of compliance:

These are the Company's first annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued):

IFRS 1 *First-Time Adoption of International Financial Reporting Standards* has been applied to these consolidated financial statements. The impact of the transition from Canadian generally accepted accounting principles ("GAAP") to IFRS is explained in notes 16 and 17.

These consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments which are measured at fair value and held-for-trading financial assets which are measured at fair value with changes in fair value recorded in net income (loss). In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The accounting policies set out below have been applied consistently to all periods presented and in preparing the opening statement of financial position at January 1, 2010 for purposes of transition to IFRS. The accounting policies have been applied consistently by the Company and its subsidiary.

(b) Functional and presentation currency:

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

(c) Use of estimates and judgments:

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

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected. Reserve estimates impact a number of the areas referred to above, in particular the valuation of petroleum and natural gas interests, the calculation of depletion of petroleum and natural gas interests and the calculation of the discount of decommissioning obligations.

2. BASIS OF PREPARATION (continued)

(d) Approval of the financial statements

The consolidated financial statements of Strikewell Energy Corp. for the year ended December 31, 2011 was approved and authorized for issue by the Board of Directors on April 18, 2012.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation:

(i) Subsidiaries

As part of its transition to IFRS, the Company elected not to restate business combinations that occurred prior to January 1, 2010.

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

(ii) Jointly controlled operations and jointly controlled assets

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

(iii) Transactions eliminated on consolidation

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

(b) Financial instruments:

(i) Financial assets

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity and available-for-sale ("AFS"). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued):

(i) Financial assets (continued)

Financial assets at fair value through profit or loss

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

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses. The impairment loss on receivables is based on a review of all outstanding amounts at period end. Bad debts are written off during the year in which they are identified. Interest income is recognized by applying the effective interest rate method.

Held-to-maturity

Held-to-maturity financial assets are recognized on a trade-date basis and are initially measured at fair value using the effective interest rate method.

Available-for-sale

AFS financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial assets categories. Changes in the fair value of AFS financial assets other than impairment losses are recognized as other comprehensive income and classified as a component of equity.

(ii) Financial liabilities

The Company classifies its financial liabilities as FVTPL, other financial liabilities or derivative financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued):

(ii) Financial liabilities (continued)

Fair value through profit or loss

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss.

Other financial liabilities

Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost using the effective interest rate method. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method. Other financial liabilities are classified as current or non-current based on their maturity date.

Derivative financial liabilities

Derivatives, including separated embedded derivatives are classified as FVTPL and are recorded on the statement of financial position at fair value. Changes in fair value are recognized in profit or loss unless they are designated as effective hedging instruments. Transaction costs are recognized in profit or loss as incurred.

(iii) Effective interest method

The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(iv) Fair value hierarchy

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

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued):

(iv) Fair value hierarchy (continued)

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(c) Revenue recognition:

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

(d) Petroleum and natural gas interests:

Items of property, plant and equipment included in petroleum and natural gas interests, which include oil and gas development assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development assets are grouped into cash generating units ("CGUs") for impairment testing. As at December 31, 2011, the Company has one CGU, which consists of the Garrington property held by Strikewell Capital.

Gains and losses on disposal of an item of property, plant and equipment, including petroleum and gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Petroleum and natural gas interests (continued):

Depletion and depreciation

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

Proven reserves are estimated using independent reserve engineer reports and represent the estimated quantities of oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a minimum of 90 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and a maximum 10 percent statistical probability that it will be less. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

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

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

(e) Impairment:

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment (continued):

Financial assets (continued)

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

Non-financial assets

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

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

An impairment loss would be recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

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

(f) Income taxes:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Income taxes (continued):

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

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(g) Earnings (loss) per share:

Basic earnings (loss) per share is calculated by dividing net income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the treasury stock method. In accordance with the treasury stock method, the weighted average number of common shares outstanding is increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

(h) Share-based payments:

The Company may grant share options to acquire common shares of the Company to directors, officers, employees and consultants. The fair value of share-based payments to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period for employees using the graded vesting method. Fair value of share-based payments to non-employees is recognized and measured at the date the goods or services are received based on the fair value of such goods or services. If it is determined that the fair value of goods and services received cannot be reliably measured the share-based payment is measured at the fair value of the equity instruments issued using the Black-Scholes option pricing model.

For both employees and non-employees, the fair value of share-based payments is recognized as either an expense or as petroleum and natural gas interests with a corresponding increase in option reserves. The amount recognized as expense is adjusted to reflect the number of share options expected to vest. Consideration received on the exercise of stock options is recorded in capital stock and the related share-based payment in option reserves is transferred to capital stock. For those options that expire or are forfeited after vesting, the recorded value is transferred to deficit.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Decommissioning obligations:

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

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

(j) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present obligation (legal or constructive) that can be estimated reliably, and it is probable that an expenditure will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

(k) Operating segment:

The Company has only one operating segment, the exploration and development of petroleum and natural gas interests in Alberta.

(l) Pending accounting pronouncements:

Certain new standards, interpretations, amendments and improvements to the existing standards were issued by the IASB that are mandatory for accounting periods beginning after January 1, 2012 or later periods. The standards impacted that are applicable to the Company are as follows:

Recent accounting pronouncements

IFRS 9 *Financial Instruments*

IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities, which may affect the Company's accounting for its financial assets. Under this guidance, entities have the option to recognize financial liabilities at fair value through profit and loss. If this option is elected, entities would be required to reverse the portion of

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Pending accounting pronouncements (continued):

IFRS 9 *Financial Instruments* (continued)

the fair value change due to a company's own credit risk out of operations and recognized the change in other comprehensive income. The standard is not applicable until January 1, 2015, but is available for early adoption. The Company has yet to assess the full impact of IFRS 9.

IFRS 10 *Consolidation*

This standard requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. This standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. IFRS 10 replaces Standard Interpretations Committee 12 ("SIC") *Consolidation – Special Purpose Entities*, and parts of IAS 27 *Consolidated and Separate Financial Statement*s. The standard is not applicable until January 1, 2013, but is available for early adoption. The Company has yet to assess the full impact of IFRS 10.

IFRS 13 *Fair Value Measurement*

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

Amendments to IFRS 7 *Financial Instruments: Disclosures*

This standard makes amendments resulting from the IASB's comprehensive review of off balance sheet activities.

The amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

This standard applies to annual periods beginning on or after July 1, 2011.

4. FINANCIAL INSTRUMENTS

Fair value:

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. All financial instruments measured at fair value are categorized into a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

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

The notes payable are recorded at their amortized cost. The two notes payable are due for repayment on January 1, 2014 and bear interest at 2% for years one and two, 3% for years three and four, 4% for year five and 15% for years six through eight, compounded and payable semi-annually. The interest rates on the notes payable for years one through five are considered to be below market for financial instruments with similar risk profile and above market for years six through eight. Management has determined that an interest rate of 12% per annum over the term of the loan would be a closer approximation to a fair value interest rate. Accordingly, the carrying value of the promissory notes has been valued to reflect an interest rate of 12%.

Classification:

The Company classifies its financial instruments as follows: cash is classified as a financial asset at fair value through profit or loss; accounts receivable as loans and receivables which is measured at amortized cost; accounts payable, loan payable and notes payable as other financial liabilities, which are measured at amortized cost.

5. FINANCIAL RISK MANAGEMENT

(a) Overview:

The Company has exposure to the following risks from its use of financial instruments:

- Market risk;
- Credit risk; and
- Liquidity risk

(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 December 31, 2011.

5. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued):

(i) Interest rate risk (continued)

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

(ii) Foreign currency risk

The Company is not exposed to significant foreign currency risk.

(iii) Other price risk

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

(c) Credit risk:

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its payment obligations. The Company is exposed to credit risk with respect to its cash and accounts receivable. The credit risk associated with cash is minimized substantially by ensuring these financial assets are placed with a major financial institution with a high credit rating.

Accounts receivable primarily consists of revenues from the sale of oil and gas. To reduce credit risk, the Company regularly reviews the collectability of accounts receivable.

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:

	December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	$ 18,911	$ 27,312	$ 45,886

(d) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in satisfying obligations as they become due. The Company assesses its liquidity risk by forecasting cash flows required by operations and anticipated financing activities.

(Expressed in Canadian Dollars)

5. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

The Company has a cash balance at December 31, 2011 of $23,998 (December 31, 2010 - $252,115; January 1, 2010 - $1,382,109) and accounts receivable of $24,845 (December 31, 2010 - $34,861; January 1, 2010 - $103,877). At December 31, 2011, the Company had accounts payable and accrued liabilities of $887,573 (December 31, 2010 - $368,724; January 1, 2010 - $341,371) and a working capital deficiency of $2,140,358 (December 31, 2010 - $81,748; January 1, 2010 - working capital of $16,171). Based on the current funds held, the Company will need to rely upon financing from shareholders and/or debt holders to obtain sufficient working capital. There is no assurance that such financing will be available on terms and conditions acceptable to the Company.

The amounts listed below are the remaining undiscounted contractual maturities for financial liabilities held by the Company as at December 31, 2011:

Due Date	Accounts Payable and Accrued Liabilities	Loan Payable	Notes Payable	Total
		(note 10)	(note 11)	
0 – 90 days	$ 789,051	$ -	$ -	$ 789,051
90 – 365 days	98,522	1,301,628	-	1,400,150
More than 1 year	-	-	4,270,667	4,270,667
	$ 887,573	$ 1,301,628	$ 4,270,667	$ 6,459,868

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

Due Date	Accounts Payable and Accrued Liabilities	Loan Payable	Notes Payable	Total December 31, 2010
		(note 10)	(note 11)	
0 – 90 days	$ 270,202	$ -	$ -	$ 270,202
90 – 365 days	98,522	-	-	98,522
More than 1 year	-	1,215,036	4,270,667	5,485,703
	$ 368,724	$ 1,215,036	$ 4,270,667	$ 5,854,427

(Expressed in Canadian Dollars)

5. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

The amounts listed below are the remaining undiscounted contractual maturities for financial liabilities held by the Company as at January 1, 2010:

Due Date		Accounts Payable and Accrued Liabilities		Loan Payable		Notes Payable		Total January 1, 2010
				(note 10)		(note 11)		
0 – 90 days	$	241,371	$	-	$	-	$	241,371
90 – 365 days		100,000		1,128,444		-		1,228,444
More than 1 year		-				6,247,819		6,247,819
	$	341,371	$	1,128,444	$	6,247,819	$	7,717,634

6. CAPITAL MANAGEMENT

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

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

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

7. MINERAL PROPERTY

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

(Expressed in Canadian Dollars)

7. MINERAL PROPERTY (continued)

In July 2010, the Company sold the La Forma Property to a company with a shareholder who is also a significant shareholder of the Company for total consideration of $1,200,000. The proceeds of $1,200,000 were applied against the principal balance of the note payable owed by the Company (note 11). The transaction has been recorded at its fair value and the Company has recorded a gain of $1,199,999 on the disposal of the La Forma Property. The value of this property was based on assessment as determined by an independent financial analyst.

8. PETROLEUM AND NATURAL GAS INTERESTS

Cost	Well equipment	Acquisition and lease	Asset retirement	Total
Balance at January 1, 2010	$ 90,000	$ 363,540	$ 1,939	$ 455,479
Additions	-	340	(97)	243
Balance at December 31, 2010	90,000	363,880	1,842	455,722
Additions	-	-	(98)	(98)
Balance at December 31, 2011	$ 90,000	$ 363,880	$ 1,744	$ 455,624

Depletion	Well equipment	Acquisition and lease	Asset retirement	Total
Balance at January 1, 2010	$ 413	$ 1,672	$ 10	$ 2,095
Additions	1,201	4,858	25	6,084
Balance at December 31, 2010	1,614	6,530	35	8,179
Additions	1,464	5,917	28	7,409
Balance at December 31, 2011	$ 3,078	$ 12,447	$ 63	$ 15,588

Carrying amounts	Well equipment	Acquisition and lease	Asset retirement	Total
January 1, 2010	$ 89,587	$ 361,868	$ 1,929	$ 453,384
December 31, 2010	$ 88,386	$ 357,350	$ 1,807	$ 447,543
December 31, 2011	$ 86,922	$ 351,433	$ 1,681	$ 440,036

For the year ended December 31, 2011, the Company has not capitalized any general and administrative expenses (2010 - $nil).

(Expressed in Canadian Dollars)

8. PETROLEUM AND NATURAL GAS INTERESTS (continued)

The impairment tests were primarily based on the net present value of cash flows from oil and natural gas reserves of each CGU at a pre-tax discount rate of 3.29 percent (2010 – 3.48 percent). The Company recorded an impairment charge of $nil (2010 - $nil) relating to the petroleum and natural gas interests.

Security

At December 31, 2011 and 2010, all of the Company's properties are pledged as security for the loan and notes payable.

Contingencies

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

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2011	December 31, 2010	January 1, 2010
Trade payables	$ 201,685	$ 203,894	$ 247,026
Interest payables	641,354	120,754	-
Other payables	8,534	8,576	57,185
Accrued liabilities	36,000	35,500	37,160
	$ 887,573	$ 368,724	$ 341,371

10. LOAN PAYABLE

	December 31, 2011	December 31, 2010	January 1, 2010
Unsecured loan payable, with interest at 10% per annum, due June 1, 2012 (principal balance of $865,924)	$ 1,301,628	$ 1,215,036	$ 1,128,444
Less: Current portion	1,301,628	-	1,128,444
	$ -	$ 1,215,036	$ -

Included in the loan payable is accrued interest of $435,704 (December 31, 2010 - $349,112, January 1, 2010 - $262,520). In 2010, the lender amended terms of the original loan agreement dated October 1, 2006 (amended in 2008) to extend the maturity date of the loan from June 1, 2010 to June 1, 2012. All pre-existing terms of the loan are still existent for the amended loan.

(Expressed in Canadian Dollars)

11. NOTES PAYABLE

		Vendor Note		Second Note		Total
Face value of notes payable	$	2,715,295	$	3,816,854	$	6,532,149
Carrying amount, January 1, 2010	$	2,694,415	$	3,503,177	$	6,197,592
Accretion of discount		221,158		117,660		338,818
Payment of principal		-		(1,977,152)		(1,977,152)
Carrying amount, December 31, 2010		2,915,573		1,643,685		4,559,258
Accretion of discount		(59,149)		(25,905)		(85,054)
Carrying amount, December 31, 2011	$	2,856,424	$	1,617,780	$	4,474,204

Notes payable consist of two notes arising from the purchase consideration for the acquisition of Strikewell Capital and the restructuring of certain accounts payable and loans payable of the Company. The notes were issued January 1, 2006.

The principal owing under the Vendor Note and the Second Note are due for repayment on January 1, 2014 and bear interest at 2% for years one and two, 3% for years three and four, 4% for year five and 15% for years six through eight, compounded and payable semi-annually.

The interest rates on the notes payable for years one through five are considered to be below market for financial instruments with similar risk profile and above market for years six through eight. Management has determined that an interest rate of 12% per annum over the term of the loan would be a closer approximation to a fair value interest rate. Accordingly, the carrying value of the promissory notes has been valued to reflect an interest rate of 12%.

All assets of the Company have been pledged as security for the loan and notes payable. The Vendor Note is due to a significant shareholder of the Company.

The Second Note is due to a company owned by a significant shareholder of the Company. Both notes are carried at amortized cost using the effective interest method.

Included in accounts payable and accrued liabilities is accrued interest of $641,354 (December 31, 2010 - $120,754, January 1, 2010 - $nil). During the year ended December 31, 2011, the Company paid $120,000 in interest expense applicable to the Second Note.

(Expressed in Canadian Dollars)

12. DECOMMISSIONING OBLIGATIONS

A reconciliation of the decommissioning obligations is provided below:

Decommissioning obligations		
Balance, January 1, 2010	$	1,939
Decrease in estimated future obligations		(97)
Balance, December 31, 2010		1,842
Decrease in estimated future obligations		(98)
Balance, December 31, 2011	$	1,744

13. CAPITAL STOCK

(a) Authorized

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

(b) 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.

(c) During 2007, the Company adopted a new incentive stock option plan under which the Company may issue up to a maximum of 10% of the issued shares of the Company as stock options to acquire common shares in the capital of the Company as an incentive to officers, directors, employees and consultants. There were no stock options issued or outstanding during 2010 or 2011.

(Expressed in Canadian Dollars)

14. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 26.5% (2010 - 28.5%) to income before income taxes. The reasons for the differences are as follows:

	2011	2010
Income (loss) before income taxes	$ (765,929)	$ 308,712
Statutory income tax rate	26.5%	28.5%
Expected income tax taxes (benefit)	(202,971)	87,982
Items not deductible (taxable) for income tax purposes	(22,539)	98,078
Gain on sale of mineral property interests	-	(42,000)
Adjustment due to effective rate attributable to income taxes of other jurisdictions	-	2,726
Change in timing differences	75	62,444
Effect of change in tax rate	12,665	12,339
Unrecognized benefit of deferred tax assets	212,770	(221,569)
Alberta royalty tax credit received	-	(10,922)
Deferred income tax expense (recovery)	$ -	$ (10,922)

Effective January 1, 2011, the Canadian federal corporate tax rate decreased from 18% to 16.5% and the British Columbia provincial tax decreased from 10.5% to 10%. The overall reduction in tax rates has resulted in a decrease in the Company's statutory tax rate from 28.50% to 26.50%. The Alberta provincial tax rate has remained at 10% for the past two fiscal years.

The Company recognizes tax benefits on losses or other deductible amounts generated in countries where the probable criteria for the recognition of deferred tax assets has been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	2011	2010
Excess of unused exploration expenditures for Canadian tax purposes over carrying value of mineral property interests	$ 5,694,242	$ 5,686,735
Excess of undepreciated capital cost over carrying value of fixed assets	2,487,588	2,487,588
Share issuance costs	1,534	2,302
Non-capital losses carried forward	4,297,561	3,453,220
Net capital losses carried forward	446,764	446,764
Unrecognized deductible temporary differences	$ 12,927,689	$ 12,076,609

(Expressed in Canadian Dollars)

14. INCOME TAXES (continued)

The Company has accumulated non-capital losses for income tax purposes of $4,297,561. These losses expire as follows:

2014	$	319,226
2015		441,042
2026		407,829
2027		566,158
2028		729,517
2029		104,242
2030		885,206
2031		844,341
	$	4,297,561

The Company has cumulative capital losses of $893,527 that may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize these benefits.

15. RELATED PARTY TRANSACTIONS

Related party transactions are in the normal course of operations and are measured at fair value.

As at December 31, 2011, the amount of transactions made with related parties to the Company not otherwise disclosed consists of the following:

(a) Directors' fees of $18,000 (2010 - $18,000) were paid to key management and personnel. Key management personnel were not paid any share-based payments, post-employment benefits, termination benefits, or other long-term benefits during the years ended December 31, 2011 and 2010.

(b) The loan payable of $1,301,628 (December 31, 2010 - $1,215,036; January 1, 2010 - $1,128,444) is payable to a significant shareholder of the Company.

(c) Included in accounts payable is $7,999 (December 31, 2010 - $7,999; January 1, 2010 - $7,999) in trade payables due to a significant shareholder of the Company.

(d) Administration fees of $110,993 (2010 - $194,200) were paid or payable to a company controlled by a significant shareholder of the Company.

The amounts due to related parties (aside from the loan and notes payable, as stated in notes 10 and 11) are non-interest-bearing, unsecured and due on demand.

(Expressed in Canadian Dollars)

16. IFRS

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

(a) Property, plant and equipment:

In July 2009, the IASB approved amendments and released *Additional Exemptions for First-time Adopters*, which prescribes transitional exemptions for oil and gas companies following full cost accounting. The amendment allows an entity that used full cost accounting under Canadian GAAP to elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under Canadian GAAP and to measure oil and natural gas assets in the development or production phases by allocating the amount determined under Canadian GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of the date of transition (January 1, 2010), subject to an impairment test as prescribed under IFRS. As part of the election, the assets were tested for impairment and no impairment losses were determined.

(b) Decommissioning obligation:

Under Canadian GAAP, asset retirement obligations were discounted at a credit-adjusted risk-free rate of 10%. Under IFRS, estimated cash to abandon and remediate the wells and facilities has been risk adjusted, therefore, the provision is discounted at the risk free rate in effect at the end of each reporting period. The change in the decommissioning obligations each period as a result of changes in the discount rate will result in an offsetting charge to petroleum and natural gas interests.

In accordance with IFRS 1, the Company elected to remeasure its decommissioning and restoration costs at the date of transition (January 1, 2010) and has estimated the related asset by discounting the liability to the date at which the liability arose and recalculated the accumulated depreciation, depletion and amortization under IFRS.

The impact on the statements of financial position due to the change in accounting policy is as follows:

	December 31, 2010	**January 1, 2010**
Increase in Petroleum and Natural Gas Interests	$ 961	$ 1,077
Increase to Decommissioning Liabilities	$ 961	$ 1,077

16. IFRS (continued)

(c) Impairment:

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

(d) Contributed surplus:

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

(e) Statement of cash flows:

No material changes to cash flows resulted from the transition to IFRS.

(Expressed in Canadian Dollars)

17. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS

The Canadian GAAP statement of financial position at January 1, 2010 has been reconciled to IFRS as follows:

	Notes		Canadian GAAP		Effect of transition to IFRS		IFRS
ASSETS							
Current assets							
Cash		**$**	**1,382,109**	$	-	**$**	**1,382,109**
Accounts receivable			**103,877**		-		**103,877**
			1,485,986		-		**1,485,986**
Non-current assets							
Mineral properties			**1**		-		**1**
Petroleum and natural gas interests	16 a&b		**452,307**		1,077		**453,384**
		$	**1,938,294**	$	1,077	**$**	**1,939,371**
LIABILITIES AND EQUITY							
Current liabilities							
Accounts payable and accrued liabilities		**$**	**341,371**	$	-	**$**	**341,371**
Current portion of loan payable			**1,128,444**		-		**1,128,444**
			1,469,815		-		**1,469,815**
Non-current liabilities							
Notes payable			**6,197,592**		-		**6,197,592**
Asset retirement obligation	16b		**862**		1,077		**1,939**
			7,668,269		1,077		**7,669,346**
SHAREHOLDERS' DEFICIENCY							
Capital Stock			**16,771,855**		-		**16,771,855**
Contributed Surplus	16d		**309,143**		(309,143)		**-**
Deficit	16d		**(22,810,973)**		309,143		**(22,501,830)**
			(5,729,975)		-		**(5,729,975)**
		$	**1,938,294**	$	1,077	**$**	**1,939,371**

(Expressed in Canadian Dollars)

17. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS (continued)

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

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash		$ 252,115	$ -	$ 252,115
Accounts receivable		34,861	-	34,861
Non-current assets		286,976		286,976
Mineral properties		-	-	-
Petroleum and natural gas interests	16a&b	446,582	961	447,543
		$ 733,558	$ 961	$ 734,519
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		$ 368,724	$ -	$ 368,724
Current portion of loan payable		-	-	-
		368,724	-	368,724
Non-current liabilities				
Loan payable		1,215,036	-	1,215,036
Notes payable		4,559,258	-	4,559,258
Asset retirement obligation	16b	881	961	1,842
		6,143,899	961	6,144,860
SHAREHOLDERS' DEFICIENCY				
Capital Stock		16,771,855	-	16,771,855
Contributed Surplus	16d	309,143	(309,143)	-
Deficit	16d	(22,491,339)	309,143	(22,182,196)
		(5,410,341)	-	(5,410,341)
		$ 733,558	$ 961	$ 734,519

(Expressed in Canadian Dollars)

17. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS (continued)

The Canadian GAAP statement of loss and comprehensive loss for the year-ended December 31, 2010 has been reconciled to IFRS as follows:

	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue			
Petroleum and natural gas	**$ 121,490**	$	$ 121,490
Miscellaneous	**-**		-
	121,490	-	121,490
Direct expenses			
Production	**66,535**		66,535
Royalties	**23,713**		23,713
Depreciation and accretion	**6,084**		6,084
	96,332	-	96,332
Operating income	**25,158**	-	25,158
Other expenses (income)			
Administration fees	**194,200**		194,200
Directors' and officers' fees	**18,000**		18,000
Filing and transfer agent fees	**18,066**		18,066
Interest	**607,720**		607,720
Office and miscellaneous	**13,565**		13,565
Professional fees	**64,894**		64,894
	916,445	**-**	**916,445**
Loss before other item and income tax recovery	**(891,287)**	-	(891,287)
Other item			
Gain on sale of mineral property	**1,199,999**		1,199,999
Income before income tax recovery	**308,712**	-	308,712
Income tax recovery	**10,922**		10,922
Net income and comprehensive income for year	**$ 319,634**	-	$ 319,634