STRIKEWELL ENERGY CORP.

Unaudited Condensed Interim Consolidated Financial Statements
June 30, 2012 and 2011
(Expressed in Canadian Dollars)

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102, Part 4, subsection 4.3(3) released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed interim consolidated financial statements as at and for the six months ended June 30, 2012 and 2011.

Strikewell Energy Corp.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited - Prepared by Management)

(Expressed in Canadian dollars)

	Notes		**As at June 30, 2012**		As at December 31, 2011
ASSETS					
Current Assets					
Cash		**$**	**6,877**	$	23,998
Accounts receivable			**25,538**		24,845
			32,415		48,843
Non-Current Assets					
Petroleum and natural gas interests	7		**436,392**		440,036
		$	**468,807**	$	488,879
LIABILITIES AND EQUITY					
Current Liabilities					
Accounts payable and accrued liabilities	8, 13	**$**	**1,217,416**	$	887,573
Current portion of loan payable	9		-		1,301,628
			1,217,416		2,189,201
Non-Current Liabilities					
Loan Payable	9		**1,344,925**		-
Notes payable	10		**4,427,748**		4,474,204
Decommissioning obligations	11		**1,744**		1,744
			6,991,833		6,665,149
SHAREHOLDERS' DEFICIENCY					
Capital stock	12		**16,771,855**		16,771,855
Deficit			**(23,294,881)**		(22,948,125)
			(6,523,026)		(6,176,270)
		$	**468,807**	$	488,879

Approved on behalf of the Board:

"Chris Schultze" **Director**

"Alistair Palmer" **Director**

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

Strikewell Energy Corp.

Condensed Interim Consolidated Statements of Comprehensive Income (Loss)
For the period ended June 30, 2012, with comparative figures for 2011
(Unaudited - Prepared by Management)
(Expressed in Canadian dollars)

	Notes		**For the six months ended June 30, 2012**	**For the three months ended June 30, 2012**		For the six months ended June 30, 2011	For the three months ended June 30, 2011
Revenue							
Petroleum and natural gas		**$**	**50,377**	**25,306**	$	74,473	39,004
			50,377	**25,306**		74,473	39,004
Direct expenses							
Production			**10,548**	**3,435**		8,702	7,208
Royalties			**16,150**	**7,238**		28,618	16,192
Depletion and accretion			**3,644**	**1,822**		3,200	1,600
			30,342	**12,495**		40,520	25,000
Operating income			**20,035**	**12,811**		33,953	14,004
General and administrative expenses							
Administration fees	13d		**30,000**	**15,000**		60,993	30,993
Directors' and officers' fees	13a		**9,000**	**4,500**		9,000	4,500
Filing and transfer agent fees			**10,444**	**4,389**		13,268	12,420
Interest on long-term debt			**317,140**	**158,570**		322,327	161,165
Office and miscellaneous			**1,282**	**948**		3,857	2,531
Professional fees			**(1,075)**	**(1,075)**		13,678	13,039
			366,791	**182,332**		423,123	224,648
Loss and total comprehensive loss for the period			**(346,756)**	**(169,521)**		(389,170)	(210,644)
Basic and diluted loss per share		**$**	**(0.04)**	**(0.02)**	$	(0.05)	(0.02)
Weighted average number of common shares outstanding			**8,626,862**	**8,626,862**		8,626,862	8,626,862

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

Strikewell Energy Corp.

Condensed Interim Consolidated Statements of Changes in Shareholders' Deficiency
For the period ended June 30, 2012 and 2011

(Unaudited - Prepared by Management)

(Expressed in Canadian dollars)

	Number of Shares	Captial Stock	Deficit	Total
Balance as at January 1, 2011	8,626,862	$ 16,771,855	$ (22,182,196)	$ (5,410,341)
Total comprehensive loss for the period		-	(389,170)	(389,170)
Balance as at June 30, 2011	**8,626,862**	**$ 16,771,855**	**$ (22,571,366)**	**$ (5,799,511)**

	Number of Shares	Captial Stock	Deficit	Total
Balance as at January 1, 2012	8,626,862	$ 16,771,855	$ (22,948,125)	$ (6,176,270)
Total comprehensive loss for the period			(346,756)	(346,756)
Balance as at June 30, 2012	**8,626,862**	**$ 16,771,855**	**$ (23,294,881)**	**$ (6,523,026)**

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

Strikewell Energy Corp.

Condensed Interim Consolidated Statements of Cash Flows

For the period ended June 30, 2012, with comparative figures for 2011

(Unaudited - Prepared by Management)

(Expressed in Canadian dollars)

	Notes	For the six months ended June 30 2012	For the six months ended June 30 2011
Operating activities			
Net income (loss) for the period		**$ (346,756)**	$ (389,170)
Items not involving cash:			
Depletion and accretion	7	**3,644**	3,200
Accretion of discount on notes payable	10	**(46,456)**	(41,268)
Accrued interest on loan payable		**43,297**	43,296
		(346,271)	(383,942)
Changes in non-cash working capital:			
Accounts receivable		**(693)**	(2,455)
Accounts payable and accrued liabilities		**329,843**	180,752
		329,150	178,297
Cash used in operating activities		**(17,121)**	(205,645)
Inflow (outflow) of cash		**(17,121)**	(205,645)
Cash, beginning of period		**23,998**	252,115
Cash, end of period		**$ 6,877**	$ 46,470

The notes are an integral part of these condensed interim 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 unaudited condensed interim consolidated financial statements ("interim 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 $346,756 (2011 – $389,170), is currently unable to self-finance operations, has a working capital deficiency of $1,185,001 (December 31, 2011 – $2,140,358) an accumulated deficit of $23,294,881 (December 31, 2011 - $22,948,125), 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 interim 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 interim financial statements are 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):

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

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These interim 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 interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

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 interim 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 interim financial statements of Strikewell Energy Corp. for the six-months ended June 30, 2012 were approved and authorized for issue by the Board of Directors on July 27, 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 interim 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 June 30, 2012, 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 June 30, 2012.

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:

	June 30, 2012	**December 31, 2011**
Trade receivables	$ 16,084	$ 18,911

(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.

5. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

The Company has a cash balance at June 30, 2012 of $6,877 (December 31, 2011 - $23,998) and accounts receivable of $25,538 (December 31, 2011 - $24,845). At June 30, 2012, the Company had accounts payable and accrued liabilities of $1,217,416 (December 31, 2011 - $887,573) and a working capital deficiency of $1,185,001 (December 31, 2011 - $2,140,358). 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 June 30, 2012:

Due Date	Accounts Payable and Accrued Liabilities	Loan Payable (note 9)	Notes Payable (note 10)	Total
0 – 90 days	$ 1,108,894	$ -	$ -	$ 1,108,894
90 – 365 days	108,522	-	-	108,522
More than 1 year	-	1,344,925	4,427,748	5,772,673
	$ 1,217,416	$ 1,344,925	$ 4,427,748	$ 6,990,089

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 (note 9)	Notes Payable (note 10)	Total
0 – 90 days	$ 789,051	$ -	$ -	$ 789,051
90 – 365 days	98,522	1,301,628	-	1,400,150
More than 1 year	-	-	4,474,204	4,474,204
	$ 887,573	$ 1,301,628	$ 4,474,204	$ 6,663,405

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 on-going basis and believes its approach given the relative size of the Company is reasonable.

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

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

7. PETROLEUM AND NATURAL GAS INTERESTS

Cost	Well equipment	Acquisition and lease	Asset retirement	Total
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
Additions	-	-	-	-
Balance at June 30, 2012	$ 90,000	$ 363,880	$ 1,744	$ 455,624

Depletion	Well equipment	Acquisition and lease	Asset retirement	Total
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
Additions	720	2,910	14	3,644
Balance at June 30, 2012	$ 3,798	$ 15,357	$ 77	$ 19,232

7. PETROLEUM AND NATURAL GAS INTERESTS (continued)

Carrying amounts	Well equipment	Acquisition and lease	Asset retirement	Total
December 31, 2010	$ 88,386	$ 357,350	$ 1,807	$ 447,543
December 31, 2011	$ 86,922	$ 351,433	$ 1,681	$ 440,036
June 30, 2012	$ 86,202	$ 348,523	$ 1,667	$ 436,392

For the period ended June 30, 2012, the Company has not capitalized any general and administrative expenses (2011 - $nil).

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 (2011 – 3.29 percent). The Company recorded an impairment charge of $nil (2011 - $nil) relating to the petroleum and natural gas interests.

Security

At June 30, 2012 and for the year ended December 31, 2011, 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.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2012	**December 31, 2011**
Trade payables	$ 247,763	$ 201,685
Interest payables	961,654	641,354
Other payables	7,999	8,534
Accrued liabilities	-	36,000
	$ 1,217,416	$ 887,573

9. LOAN PAYABLE

	June 30, 2012	December 31, 2011
Unsecured loan payable, with interest at 10% per annum, due June 1, 2014 (principal balance of $865,924)	$ 1,344,925	$ 1,301,628
Less: Current portion	-	1,301,628
	$ 1,344,925	$ -

Included in the loan payable is accrued interest of $479,000 (December 31, 2011 - $435,704). In 2012, the lender amended terms of the original loan agreement dated October 1, 2006 (amended in 2008 and 2010) to extend the maturity date of the loan from June 1, 2012 to June 1, 2014. All pre-existing terms of the loan are still existent for the amended loan.

10. 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
Accretion of discount	(32,263)	(14,193)	(46,456)
Carrying amount, June 30, 2012	**$ 2,824,161**	**$ 1,603,587**	**$ 4,427,748**

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%.

10. NOTES PAYABLE (continued)

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 $961,654 (December 31, 2011 - $641,354). During the year ended December 31, 2011, the Company paid $120,000 in interest expense applicable to the Second Note.

11. 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 and June 30, 2012	$	1,744

12. 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 2011 or 2012 to date.

13. RELATED PARTY TRANSACTIONS

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

As at June 30, 2012, the amount of transactions made with related parties to the Company not otherwise disclosed consists of the following:

(a) Directors' fees of $9,000 (2011 - $9,000) 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 period ended June 30, 2012 and during the year ended December 31, 2011.

(b) The loan payable of $1,344,925 (December 31, 2011 - $1,301,628) is payable to a significant shareholder of the Company.

(c) Included in accounts payable is $7,999 (December 31, 2011 - $7,999) in trade payables due to a significant shareholder of the Company.

(d) Administration fees of $30,000 (2011 - $60,993) 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 9 and 10) are non-interest-bearing, unsecured and due on demand.