STRIKEWELL ENERGY CORP.

Consolidated Financial Statements
December 31, 2012 and 2011
(Expressed in Canadian Dollars)

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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, 2012 and 2011, and the consolidated statements of comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, 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, 2012 and 2011, and its financial performance and its cash flows for the years then ended 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 describes matters and conditions that indicate the existence of material uncertainties 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, 2013

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Strikewell Energy Corp.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	Notes		As at December 31, 2012		As at December 31, 2011
ASSETS	7, 9, 10				
Current Assets					
Cash		**$**	**4,547**	$	23,998
Accounts receivable			**16,118**		24,845
			20,665		48,843
Non-Current Assets					
Petroleum and natural gas interests	7		**257,622**		440,036
		$	**278,287**	$	488,879
LIABILITIES AND EQUITY					
Current Liabilities					
Accounts payable and accrued liabilities	8, 10, 14	**$**	**1,606,387**	$	887,573
Current portion of loan payable	9, 14		**-**		1,301,628
			1,606,387		2,189,201
Non-Current Liabilities					
Loan payable	9, 14		**1,195,091**		-
Notes payable	10		**4,378,456**		4,474,204
Decommissioning obligations	11		**6,128**		1,744
			7,186,062		6,665,149
SHAREHOLDERS' DEFICIENCY					
Capital stock	12		**16,771,855**		16,771,855
Contributed surplus			**252,608**		-
Deficit			**(23,932,238)**		(22,948,125)
			(6,907,775)		(6,176,270)
		$	**278,287**	$	488,879

Approved on behalf of the Board:

"Christopher Schultze" (signed) **Director**

"Alistair Palmer" (signed) **Director**

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

Strikewell Energy Corp.

Consolidated Statements of Comprehensive Loss
Years Ended December 31

(Expressed in Canadian dollars)

	Notes	2012	2011
Revenue			
Petroleum and natural gas		**$ 119,599**	$ 173,023
Direct expenses			
Production		**25,082**	33,495
Royalties		**40,098**	50,904
Depletion and accretion		**7,087**	7,409
		72,267	91,808
Operating income		**47,332**	81,215
Other expenses			
Administration fees	14d	**60,000**	110,993
Directors' and officers' fees	14a	**18,000**	18,000
Filing and transfer agent fees		**15,781**	16,659
Impairment of petroleum and natural gas interests	7	**211,550**	-
Interest on long-term debt		**690,923**	642,137
Office and miscellaneous		**2,590**	8,751
Professional fees		**32,601**	50,604
		1,031,445	847,144
Net loss and comprehensive loss for the year		**$ (984,113)**	$ (765,929)
Basic and diluted loss per share		**$ (0.11)**	$ (0.09)
Weighted average number of common shares outstanding		**8,626,862**	8,626,862

Strikewell Energy Corp.

Consolidated Statements of Changes in Shareholders' Deficiency
For the years ended December 31, 2012 and 2011

(Expressed in Canadian dollars)

	Number of Shares	Captial Stock	Contributed Surplus	Deficit	Total
Balance as at January 1, 2011	8,626,862	$ 16,771,855	$ -	$ (22,182,196)	$ (5,410,341)
Net 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	Captial Stock	Contributed Surplus	Deficit	Total
Balance as at January 1, 2012	8,626,862	$ 16,771,855	$ -	$ (22,948,125)	$ (6,176,270)
Extinguishment of debt (note 9)	-	-	252,608	-	252,608
Net loss for the year	-	-	-	(984,113)	(984,113)
Balance as at December 31, 2012	**8,626,862**	**$ 16,771,855**	**$ 252,608**	**$ (23,932,238)**	**$ (6,907,775)**

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

Strikewell Energy Corp.

Consolidated Statements of Cash Flows
Years ended December 31

(Expressed in Canadian dollars)

	Notes		**2012**		2011
Operating activities					
Net loss for the year		**$**	**(984,113)**	$	(765,929)
Items not involving cash:					
Depletion and accretion	7		**7,087**		7,409
Accretion of discount on notes payable	10		**(95,748)**		(85,054)
Accrued interest on loan payable	9		**146,071**		86,592
Impairment on petroleum and natural gas interests	7		**211,550**		-
			(715,153)		(756,982)
Changes in non-cash working capital:					
Accounts receivable			**8,727**		10,016
Accounts payable and accrued liabilities			**718,814**		519,108
			727,541		529,124
Cash provided by (used in) operating activities			**12,388**		(227,858)
Investing activities					
Petroleum and natural gas interests			**(31,839)**		(259)
Cash used in investing activities			**(31,839)**		(259)
Outflow of cash			**(19,451)**		(228,117)
Cash, beginning of year			**23,998**		252,115
Cash, end of year		**$**	**4,547**	$	23,998
Supplemental Information					
Non-cash transactions					
Increase (decrease) in decommissioning obligations		**$**	**4,384**	$	(98)

1. NATURE OF OPERATIONS AND GOING CONCERN

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

Strikewell 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. Strikewell is the ultimate parent company.

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 $984,113 (2011 - $765,929), is currently unable to self-finance operations, has a working capital deficiency of $1,585,722 (2011 - $2,140,358) an accumulated deficit of $23,932,238 (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 2013.

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 consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued):

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 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.

(d) Approval of the financial statements

The consolidated financial statements of Strikewell Energy Corp. for the year ended December 31, 2012 were approved and authorized for issue by the Board of Directors on April 18, 2013.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation:

(i) Subsidiaries

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 since the date that control commenced.

(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

Intercompany 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.

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 FVTPL 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 FVTPL are measured at fair value, and changes therein are recognized in operations.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued):

(i) Financial assets (continued)

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 or other financial liabilities.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued):

(ii) Financial liabilities (continued)

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 or 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.

(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
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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment (continued):

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 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 contributed surplus. 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 contributed surplus is transferred to capital stock. For those options that expire or are forfeited after vesting, the recorded value is transferred to deficit.

(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 consolidated 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 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) New accounting pronouncements:

All of the new and revised standards described below may be early-adopted.

IFRS 9 *Financial Instruments (2009)*

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a “business model” test and a “cash flow characteristics” test are measured at amortized cost (the use of fair value is optional in some limited circumstances)
- Investments in equity instruments can be designated as “fair value through other comprehensive income” with only dividends being recognized in profit or loss
- All other instruments (including all derivatives) are measured at fair value with changes recognized in the profit or loss.

The concept of “embedded derivatives” does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

This standard is only applicable if it is optionally adopted for annual periods beginning before January 1, 2015. For annual periods beginning on or after January 1, 2015, the Company must adopt IFRS 9 (2010).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) New accounting pronouncements (continued):

IFRS 9 *Financial Instruments (2010)*

This is a revised version incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at FVTPL; in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

This standard applies to annual periods beginning on or after January 1, 2015 and supersedes IFRS 9 (2009). However, for annual reporting periods beginning before January 1, 2015, an entity may early-adopt IFRS 9 (2009) instead of applying this standard.

IFRS 10 *Consolidation*

This standard requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation - Special Purpose Entities*.

The standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.

The standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in "special purpose entities"). Under IFRS 10, control is based on whether an investor has power over the investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the returns.

It is applicable to annual periods beginning on or after January 1, 2013. If early-adopted, it must be adopted together with IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) New accounting pronouncements (continued):

IFRS 11 *Joint Arrangements*

This standard replaces IAS 31 *Interests in Joint Ventures*. It requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

Joint arrangements are either joint operations or joint ventures:

- A **joint operation** is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognize their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly)
- A **joint venture** is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 *Investments in Associates and Joint Ventures* (2011). Unlike IAS 31, the use of "proportionate consolidation" to account for joint ventures is not permitted.

It is applicable to annual periods beginning on or after January 1, 2013. If early-adopted, it must be adopted together with IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

IFRS 12 *Disclosures of Interests in Other Entities*

This standard requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- **Significant judgments and assumptions** - such as how control, joint control, significant influence has been determined
- **Interests in subsidiaries** - including details of the structure of the group, risks associated with structured entities, changes in control, and so on
- **Interests in joint arrangements and associates** - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarized financial information)
- **Interests in unconsolidated structured entities** - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) New accounting pronouncements (continued):

IFRS 12 *Disclosures of Interests in Other Entities* (continued)

IFRS 12 lists specific examples and additional disclosures that further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

It is applicable to annual periods beginning on or after January 1, 2013. If early-adopted, it must be adopted together with IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011).

IFRS 13 *Fair Value Measurement*

This IFRS standard defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements such as fair value less costs to sell, based on fair value or disclosures about those measurements). With some exceptions, the standard requires entities to classify these measurements into a “fair value hierarchy” based on the nature of the inputs:

- Level 1 – quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2 – inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g., whether it is recognized in the financial statements or merely disclosed) and the level in which it is classified.

This standard is applicable to annual reporting periods beginning on or after January 1, 2013.

IAS 27 *Separate Financial Statements*

This IFRS standard has been updated to require an entity presenting separate financial statements to account for those investments at costs or in accordance with IFRS 9. The amended IAS 27 excludes guidance on the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent currently within the scope of the current IAS 27 *Consolidated and Separate Financial Statements* that is replaced by IFRS 10.

This standard is effective for annual reporting periods beginning on or after January 1, 2013.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) New accounting pronouncements (continued):

IAS 28 *Investments in Associates and Joint Ventures*

This standard has been amended to prescribe the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard defines "significant influence" and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment. This standard is effective for annual periods beginning on or after January 1, 2013.

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

The loan payable is recorded at its amortized cost, is due for repayment June 1, 2014 and bears interest at 10% per annum. Management has determined that an interest rate of 16% 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 16%.

The notes payable are recorded at their amortized cost. The two notes payable are due for repayment 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 FVTPL; accounts receivable, as loans and receivables, which are 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 due to 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, 2012.

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 due to 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.

5. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk (continued):

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, 2012	December 31, 2011
Trade receivables	$ 11,121	$ 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.

The Company has a cash balance at December 31, 2012 of $4,547 (2011 - $23,998) and accounts receivable of $16,118 (2011 - $24,845). At December 31, 2012, the Company had accounts payable and accrued liabilities of $1,606,387 (2011 - $887,573) and a working capital deficiency of $1,585,722 (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 December 31, 2012:

Due Date	Accounts Payable and Accrued Liabilities	Loan Payable	Notes Payable	Total
		(note 9)	(note 10)	
0 – 30 days	$ 324,434	$ -	$ -	$ 324,434
30 days – 1 year	1,281,953			1,281,953
1 to 2 years	-	1,337,708	4,270,667	5,608,375
	$ 1,606,387	$ 1,337,708	$ 4,270,667	$ 7,214,762

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 December 31, 2011:

Due Date		Accounts Payable and Accrued Liabilities		Loan Payable (note 9)		Notes Payable (note 10)		Total
0 – 30 days	$	147,698	$	-	$	-	$	147,698
30 days– 1 year		739,875		1,301,628		-		2,041,503
1 year – 2 years		-		-		4,270,667		4,270,667
	$	887,573	$	1,301,628	$	4,270,667	$	6,459,868

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		-		31,839		4,384		36,223
Balance at December 31, 2012	$	90,000	$	395,719	$	6,128	$	491,847

Accumulated Depletion and Impairment		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		1,310		5,685		92		7,087
Impairment		39,100		172,450		-		211,550
Balance at December 31, 2012	$	43,488	$	190,582	$	155	$	234,225

Carrying amounts		Well Equipment		Acquisition and Lease		Asset Retirement		Total
December 31, 2011	$	86,922	$	351,433	$	1,681	$	440,036
December 31, 2012	$	46,512	$	205,137	$	5,973	$	257,622

The impairment tests were primarily based on value in use and were determined using proved and probable reserves at a discount rate of 10.00% (2011 - 10.00%). During the year ended December 31, 2012, as a result of decreasing natural gas and petroleum prices and a reduction of the estimated reserve volumes, the Company recorded an impairment charge of $211,550 (2011 - $nil) relating to the petroleum and natural gas interests.

7. PETROLEUM AND NATURAL GAS INTERESTS (continued)

The following table summarizes the benchmark prices used by the Company in the calculation of net present value of cash flows of its property:

Year	Benchmark Crude oil CDN$/BBL	Benchmark Gas CDN$/MCF	Benchmark NGL CDN$/BBL
2013	$ 83.96	$ 3.31	$ 51.28
2014	$ 86.89	$ 3.83	$ 55.68
2015	$ 88.92	$ 4.36	$ 59.68
2016	$ 90.75	$ 4.73	$ 60.96
2017	$ 92.57	$ 5.15	$ 62.16
2018	$ 94.40	$ 5.51	$ 63.36
2019	$ 96.32	$ 5.57	$ 64.64
2020	$ 98.24	$ 5.72	$ 65.92
2021	$ 100.19	$ 5.83	$ 67.20

Security:

At December 31, 2012 and 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

	2012	2011
Trade payables	$ 283,934	$ 201,685
Interest payables	1,281,954	641,354
Other payables	7,999	8,534
Accrued liabilities	32,500	36,000
	$ 1,606,387	$ 887,573

9. LOAN PAYABLE

		Total
Face value of loans payable	$	865,924
Carrying amount, December 31, 2010	$	1,215,036
Accrued interest		86,592
Carrying amount, December 31, 2011		1,301,628
Gain on extinguishment of debt		(252,608)
Accrued interest		146,071
Carrying amount, December 31, 2012	$	1,195,091

This loan has a principal balance of $865,924, is secured by the assets of the Company and bears interest at 10% per annum payable semi-annually to a related party. On June 1, 2012, the terms of the original loan agreement were amended to reflect an update to the maturity date of the loan from June 1, 2012 to June 1, 2014. There were no other changes to the pre-existing terms of the loan.

As part of the amendment the loan was revalued to account for current comparable market interest rates. As a result the effective interest rate was determined to be 16% per annum and a gain of $252,608 was deemed to have been received upon extension of the due date of the loan. This gain was recorded in contributed surplus to reflect the benefit having been received from a related party.

Included in the loan payable is accrued interest of $522,296 (2011 - $435,704).

10. NOTES PAYABLE

		Vendor Note		Second Note		Total
Face value of notes payable	$	2,715,295	$	3,816,854	$	6,532,149
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		(66,461)		(29,287)		(95,748)
Carrying amount, December 31, 2012	$	2,789,963	$	1,588,493	$	4,378,456

Notes payable consists 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 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.

10. NOTES PAYABLE (continued)

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 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 $1,281,954 (2011 - $641,354). During the year ended December 31, 2012, the Company paid $nil (2011 - $120,000) in interest expense applicable to the Second Note.

11. DECOMMISSIONING OBLIGATIONS

A reconciliation of the decommissioning obligations is provided below:

Balance, December 31, 2010	$	1,842
Decrease in estimated future obligations		(98)
Balance, December 31, 2011		1,744
Increase in estimated future obligations		4,384
Balance, December 31, 2012	$	6,128

The Company's decommissioning obligations are based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations is approximately $9,900. The majority of the costs will be incurred after 2027. An inflation factor of 0.80% has been applied to the estimated asset retirement cost. A risk-free rate of 2.43% was used to calculate the fair value of the decommissioning obligations. The change in timing of estimated future obligations and a change in the risk-free rate results in an increase in the present value of the decommissioning obligations.

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.

13. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 25.0% (2011 - 26.5%) to loss before income taxes. The reasons for the differences are as follows:

		2012		2011
Loss before income taxes	$	(984,113)	$	(765,929)
Statutory income tax rate		25.0%		26.5%
Expected income tax taxes (benefit)		(246,028)		(202,971)
Items not deductible (taxable) for income tax purposes		(9,067)		(22,539)
Change in timing differences		-		75
Effect of change in tax rate		-		12,665
Unused tax losses and tax offsets not recognized		255,095		212,770
Deferred income tax expense (recovery)	$	-	$	-

Effective January 1, 2012, the Canadian federal corporate tax rate decreased from 16.5% to 15.0% and the British Columbia provincial tax remained at 10.0%. The overall reduction in tax rates has resulted in a decrease in the Company's statutory tax rate from 26.5% to 25.0%. The Alberta provincial tax rate has remained at 10.0% for the past three fiscal years.

13. INCOME TAXES (continued)

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:

	2012	2011
Excess of unused exploration expenditures for Canadian tax purposes over carrying value of mineral property interests	$ 5,912,879	$ 5,694,242
Excess of undepreciated capital cost over carrying value of fixed assets	2,487,588	2,487,588
Share issuance costs	766	1,534
Non-capital losses carried forward	5,100,074	4,297,561
Net capital losses carried forward	446,764	446,764
Unrecognized deductible temporary differences	$ 13,948,071	$ 12,927,689

The Company has accumulated non-capital losses for income tax purposes of $5,100,074. 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
2032	802,513
	$ 5,100,074

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.

14. RELATED PARTY TRANSACTIONS

As at December 31, 2012, the transactions made with related parties to the Company not otherwise disclosed consist of the following:

(a) Directors' fees of $18,000 (2011 - $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, 2012 and 2011.

(b) The loan payable of $1,195,091 (2011 - $1,301,628) is payable to a significant shareholder of the Company.

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

(d) Administration fees of $60,000 (2011 - $110,993) were paid or payable to a company controlled by a significant shareholder of the Company. Included in accounts payable and accrued liabilities is $59,290 (2011 - $693) in trade payables due to this 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.