

STRIKEWELL ENERGY CORP.

Consolidated Financial Statements December 31, 2021 and 2020 (Expressed in Canadian Dollars)

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF STRIKEWELL ENERGY CORP.

Opinion

We have audited the consolidated financial statements of Strikewell Energy Corp. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2021 and 2020;
- the consolidated statements of operations and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' deficiency for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$1,974,440 during the year ended December 31, 2021 and, as of that date, the Company's working capital deficiency is \$8,622,716. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Vancouver

1700 - 475 Howe St
Vancouver, BC V6C 2B3
T: 604 687 1231
F: 604 688 4675

Langley

600 - 19933 88 Ave
Langley, BC V2Y 4K5
T: 604 282 3600
F: 604 357 1376

Nanaimo

201 - 1825 Bowen Rd
Nanaimo, BC V9S 1H1
T: 250 755 2111
F: 250 984 0886

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ♦ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ♦ Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- ♦ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ♦ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ♦ Evaluate the overall presentation, structure and content of the consolidated financial statements,

including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- ♦ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Hervé Leong-Chung.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia

April 22, 2022

Vancouver

1700 - 475 Howe St
Vancouver, BC V6C 2B3
T: 604 687 1231
F: 604 688 4675

Langley

600 - 19933 88 Ave
Langley, BC V2Y 4K5
T: 604 282 3600
F: 604 357 1376

Nanaimo

201 - 1825 Bowen Rd
Nanaimo, BC V9S 1H1
T: 250 755 2111
F: 250 984 0886

Strikewell Energy Corp.

Consolidated Statements of Financial Position

As at December 31

(Expressed in Canadian dollars)

	Notes	2021	2020
ASSETS			
Current Assets			
Cash		\$ 225,913	\$ 164,313
Accounts receivable	5	195,118	180,702
Prepaid expenses		6,975	6,067
		428,006	351,082
Non-Current Assets			
Petroleum and natural gas interests	7, 15	500,427	352,381
		\$ 928,433	\$ 703,463
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	8, 9, 10, 14	\$ 8,052,295	\$ 6,172,766
Loans payable	9	998,427	-
		9,050,722	6,172,766
Non-Current Liabilities			
Loans payable	9	910,574	1,791,657
Notes payable	10	10,663,703	10,663,703
Decommissioning obligations	11	301,649	99,112
		20,926,648	18,727,238
SHAREHOLDERS' DEFICIENCY			
Capital stock	12	16,771,855	16,771,855
Contributed surplus	9, 10	3,982,412	3,982,412
Deficit		(40,752,482)	(38,778,042)
		(19,998,215)	(18,023,775)
		\$ 928,433	\$ 703,463

Approved on behalf of the Board:

"David Hislop"

Director

"Alistair Palmer"

Director

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

Strikewell Energy Corp.

Consolidated Statements of Operations and Comprehensive Loss Years Ended December 31

(Expressed in Canadian dollars)

	Notes	2021	2020
Revenue			
Petroleum and natural gas	\$	828,917	421,720
Royalties		(189,616)	(53,575)
		639,301	368,145
Direct expenses			
Production		370,379	277,514
Depletion and accretion		61,635	83,765
		432,014	361,279
Operating income		207,287	6,866
General and administrative expenses			
Administration fees	14c	60,000	60,000
Bad debt expense		-	9,935
Directors' and officers' fees	14a	24,450	19,400
Filing and transfer agent fees		13,782	15,630
Insurance		20,017	19,833
Interest and accretion on loans and notes payable	9, 10	2,015,108	2,009,667
Interest income	15	-	(18,428)
Loss on settlement of receivables	16	-	159,251
Office and miscellaneous		4,863	3,968
Professional fees		43,507	46,766
		2,181,727	2,326,022
Net loss and comprehensive loss for the year		\$ (1,974,440)	\$ (2,319,156)
Basic and diluted loss per share		\$ (0.23)	\$ (0.27)
Weighted average number of common shares outstanding		8,626,862	8,626,862

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

Strikewell Energy Corp.

Consolidated Statements of Changes in Shareholders' Deficiency

(Expressed in Canadian dollars)

	Number of Shares	Capital Stock	Contributed Surplus	Deficit	Total
Balance as at January 1, 2020	8,626,862	\$ 16,771,855	\$ 3,982,412	\$ (36,458,886)	\$ (15,704,619)
Net loss of the year	-	-	-	(2,319,156)	(2,319,156)
Balance as at December 31, 2020	8,626,862	\$ 16,771,855	\$ 3,982,412	\$ (38,778,042)	\$ (18,023,775)

	Number of Shares	Capital Stock	Contributed Surplus	Deficit	Total
Balance as at January 1, 2021	8,626,862	\$ 16,771,855	\$ 3,982,412	\$ (38,778,042)	\$ (18,023,775)
Net loss for the year	-	-	-	(1,974,440)	(1,974,440)
Balance as at December 31, 2021	8,626,862	\$ 16,771,855	\$ 3,982,412	\$ (40,752,482)	\$ (19,998,215)

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	2021	2020
Operating activities			
Net loss for the year		\$ (1,974,440)	\$ (2,319,156)
Items not involving cash:			
Depletion and accretion	7	61,635	83,765
Loss on settlement of receivables	16	-	159,251
Accrued interest and accretion on loans and notes payable	9,10	2,015,108	2,009,667
		102,303	(66,473)
Changes in non-cash working capital:			
Accounts receivable		(14,416)	316,798
Prepaid expenses		(908)	(934)
Accounts payable and accrued liabilities		(18,235)	(302,262)
Cash provided by (used) in operating activities		68,744	(52,871)
Investing activities			
Acquisition of subsidiary, net of cash acquired	16	-	119,211
Petroleum and natural gas interest additions		(7,144)	(3,164)
Cash used in investing activities		(7,144)	116,047
Inflow (outflow) of cash		61,600	63,176
Cash, beginning of the year		164,313	101,137
Cash, end of the year		\$ 225,913	\$ 164,313

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

Strikewell Energy Corp.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Strikewell Energy Corp. (the “Company” or “Strikewell”) is an exploration and production company with petroleum and natural gas interests 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 records of the Company are located at 1500 West 16th Avenue, Vancouver, British Columbia, Canada, V6J 2L6. The Company’s registered office address is 885 West Georgia Street, Suite 900, Vancouver, British Columbia, Canada, V6H 3H1.

These consolidated financial statements have been prepared on a going concern basis, 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 incurred a net loss of \$1,974,440 (2020 - \$2,319,156) for the year ended December 31, 2021, has a working capital deficiency of \$8,622,716 (2020 - \$5,821,684) and an accumulated deficit of \$40,752,482 (2020 - \$38,778,042), limited resources and operating cash flows 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 and/or debt financing to meet its administrative overhead costs, to continue exploration work on its petroleum and natural gas interests and settle its current and long-term liabilities.

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.

The outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures that have included the implementation of travel bans, self-imposed quarantine periods and physical distancing. This created a dramatic slowdown in the global economy and global energy consumption had been materially impacted which had resulted in lower oil and natural gas prices throughout the globe, including Canada. As a result of unprecedented energy prices, many energy companies shut in their production until better commodity prices could be realized or were impacted by impairment indicators of their petroleum and natural gas assets. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

Strikewell Energy Corp.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN (continued)

The Company's business and results of operations may be further negatively affected by economic and other consequences from Russia's military action against Ukraine and the sanctions imposed in response in late February 2022. Certain countries including Canada and the United States, have imposed strict financial and trade sanctions against Russia, which may have far reaching effects on the global economy. Russia is a major exporter of oil and natural gas; therefore, disruption of supplies of oil and natural gas from Russia could cause a significant worldwide supply shortage of oil and natural gas and have a significant impact on worldwide prices of oil and natural gas. The long-term impacts of the conflict and the sanctions imposed on Russia remain uncertain.

These matters indicate material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. 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. Such adjustments could be material.

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 ("IASB").

The accounting policies set out in note 3 have been applied consistently to all years presented by the Company and its subsidiaries.

(b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(c) Functional and presentation currency

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

(d) 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. Actual results may differ from these estimates.

Following are the accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position.

Strikewell Energy Corp.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (continued)

(d) Use of estimates and judgments (continued)

Critical accounting judgments

Reserves

The estimate of petroleum and natural gas reserves is integral to the calculation of the amount of depletion charged to the consolidated statements of operations and comprehensive loss and is also a key determinant in assessing whether the carrying value of any of the Company's development and production assets have been impaired. Changes in reported reserves can impact asset carrying values and the decommissioning provision due to changes in expected future cash flows. The Company's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101. *Standards of Disclosure of Oil and Gas Activities*. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgment and interpretation.

Recoverability of long-lived asset values

At each reporting date, the Company assesses its petroleum and natural gas interests for possible impairment to determine if there is any indication that the carrying amounts of the assets may not be recoverable. An assessment is also made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. Determination as to whether and how much an asset is impaired, or no longer impaired, involves management estimates on highly uncertain matters such as future commodity prices, discount rates, production profiles, operating costs, future capital costs and reserves. Changes in circumstances may impact these estimates, which may impact the recoverable amount of assets. Any change in the impairment loss or reversal of impairment loss could have a material financial impact in future years, but future depletion expense would be impacted as a result.

Going concern

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

Asset acquisitions

Management has had to apply judgments with respect to whether the acquisition of the additional interests in the petroleum and natural gas interests is a business combination or an asset acquisition. Management applies a three-element process to determine whether a business or an asset was purchased, considering inputs, processes and outputs of each acquisition in order to reach a conclusion.

Strikewell Energy Corp.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (continued)

(d) Use of estimates and judgments (continued)

Critical accounting judgments (continued)

Asset acquisitions (continued)

In instances where the Company acquired additional working interest, the Company does not re-measure the previously held interest in the assets that it already controls.

Loans and discount rates

For loans measured at amortized cost under IFRS 9, judgment is used by management in determining the fair value for the loan at inception of the lending arrangement. The fair value of the loan is calculated based on the present value of the future loan payments, discounted using an interest rate that would be charged by another market participant for a financing arrangement with similar characteristics. Judgment is used by management in determining what the interest rate would be for sourcing a similar financing arrangement in the market.

Critical accounting estimates

Decommissioning obligations

Amounts recorded for decommissioning obligations require the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures, future inflation rates and expected discount rates. The estimates are based on internal and third-party information and calculations are subject to change over time and may have a material impact on profit or loss or financial position.

Recoverability of accounts receivable

Accounts receivable are recorded at the estimated recoverable amount, which involves the estimate of uncollectable accounts.

Income taxes

Related assets and liabilities are recognized for the estimated tax consequences between amounts included in the consolidated financial statements and their tax base using substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, and accordingly, affect the amount of the deferred tax asset or liability calculated at a point in time.

(e) Approval of the consolidated financial statements

The consolidated financial statements of Strikewell for the years ended December 31, 2021 and 2020 were approved and authorized for issue by the Board of Directors on April 22, 2022.

Strikewell Energy Corp.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

(i) Subsidiary

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Strikewell Capital Corp. (“Strikewell Capital”) and ZNX Energy Ltd. (“ZNX Energy”). A subsidiary is an entity in which the Company has control, where control requires exposure or rights to variable returns and the ability to affect those returns through power over the investee. All intercompany transactions and balances have been eliminated upon consolidation.

(ii) Jointly controlled operations and jointly controlled assets

The Company’s petroleum 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.

(b) Financial instruments

(i) Financial assets

Initial recognition and measurement

A financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. On initial recognition, a financial asset is classified as measured at amortized cost or fair value through profit or loss or fair value through other comprehensive income. A financial asset is measured at amortized cost if it meets the conditions that i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows, ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and iii) is not designated as fair value through profit or loss.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss (“FVTPL”)

Financial assets measured at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value therein, recognized in the statement of operations.

Strikewell Energy Corp.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

(i) Financial assets (continued)

Subsequent measurement (continued)

Financial assets measured at fair value through other comprehensive income (“FVTOCI”)

Financial assets measured at fair value through other comprehensive income are measured at fair value with changes in fair value included as “financial asset at fair value through other comprehensive income” in other comprehensive income.

Financial assets measured at amortized cost

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment allowance.

Derecognition

A financial asset or, where applicable a part of a financial asset or part of a group of similar financial assets is derecognized when:

- The contractual rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities subsequently measured at amortized cost. All interest-related charges are reported in profit or loss within interest expense, if applicable.

Strikewell Energy Corp.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

(iii) Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Inputs for assets or liabilities that are not based on observable market data value at one of three levels according to the relative reliability of the inputs used to estimate the fair value.

(c) Revenue recognition

Revenue from the sale of petroleum and natural gas is recorded when performance obligations are satisfied. Performance obligations are satisfied at the point in time when products are delivered based on volumes to customers at contractual delivery points, and prices have been agreed with the purchaser and collectability is reasonably assured. Delivery is generally at the time the petroleum enters the tanks and when the natural gas 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

Petroleum and natural gas interests are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into cash-generating units ("CGUs") for impairment testing. As at December 31, 2021, the Company has one CGU, which consists of the Garrington Property held by Strikewell Capital and ZNX Energy.

Gains and losses on disposal of petroleum and gas interests are determined by comparing the proceeds from disposal with the carrying amount of the asset 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 development and production assets 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, development and production assets are recognized in profit or loss as incurred.

Strikewell Energy Corp.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

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 petroleum, 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 viable. There should be a minimum of 90% statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and a maximum 10% statistical probability that it will be less. Such reserves may be considered commercially viable 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 petroleum 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 petroleum 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 estimated using the present value of future cash flows discounted at the asset's original effective interest rate.

Strikewell Energy Corp.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

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

Petroleum and natural gas interests are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. An impairment test is completed if any such indication exists.

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.

Fair value less costs to sell is determined to be the amount for which the asset could be sold in an arm's length transaction. Fair value less costs to sell can be determined by using an observable market or by using discounted future net cash flows of proved and probable reserves using forecasted prices and costs. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

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, 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 is 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 year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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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 shares outstanding during the year. Diluted earnings (loss) 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 years.

(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. The 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.

Strikewell Energy Corp.
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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 expenditures 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.

(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) New accounting pronouncements

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published, but are not yet effective, and have not been early-adopted by the Company. The Company does not expect these new pronouncements to have a significant impact on its consolidated financial statements.

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.

Classification

The Company classifies its financial instruments as follows: cash is classified as a financial asset at FVTPL; accounts receivable, at amortized cost; accounts payable and accrued liabilities, loans payable and notes payables, at amortized cost.

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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 fluctuations in market interest rates, does not have a significant impact on the fair value as at December 31, 2021.

The Company's loans and notes payable are at fixed interest rates, and therefore, the Company is exposed to interest rate fair value risk.

(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.

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5. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk

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

Accounts receivable primarily consists of revenues from the sale of petroleum and natural gas. To reduce credit risk, the Company regularly reviews the collectability of accounts receivable. Aging of the trade receivables as at December 31, 2021 and 2020 is as follows:

Due Date	December 31, 2021	December 31, 2020
0 – 60 days	\$ 63,970	\$ 49,554
61 days +	131,148	131,148
	\$ 195,118	\$ 180,702

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, 2021	December 31, 2020
Trade receivables	\$ 195,118	\$ 180,702

(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, 2021 of \$225,913 (2020 - \$164,313), accounts receivable of \$195,118 (2020 - \$180,702), accounts payable and accrued liabilities of \$8,052,295 (2020 - \$6,172,766) and a working capital deficiency of \$7,624,289 (2020 - \$5,821,684). 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.

Strikewell Energy Corp.
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5. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

The amounts listed below are the undiscounted contractual maturities for financial liabilities held by the Company as at December 31, 2021:

Due Date	Accounts Payable and Accrued Liabilities (note 8)	Loans Payable (note 9)	Notes Payable (note 10)	Total
0 – 30 days	\$ 8,052,295	\$ -	\$ -	\$ 8,052,295
31 days – 1 year	-	-	-	-
2 to 5 years	-	1,987,424	10,663,703	12,651,127
	\$ 8,052,295	\$ 1,987,424	\$ 10,663,703	\$ 20,703,422

The amounts listed below are the undiscounted contractual maturities for financial liabilities held by the Company as at December 31, 2020:

Due Date	Accounts Payable and Accrued Liabilities (note 8)	Loans Payable (note 9)	Notes Payable (note 10)	Total
0 – 30 days	\$ 6,172,766	\$ -	\$ -	\$ 6,172,766
31 days – 1 year	-	-	-	-
2 to 5 years	-	1,987,424	10,663,703	12,651,127
	\$ 6,172,766	\$ 1,987,424	\$ 10,663,703	\$ 18,823,893

6. CAPITAL MANAGEMENT

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

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

The Board of Directors does not establish a quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company's capital stock and debt are not subject to any externally imposed capital requirements and the Company did not change its approach to capital management during the years ended December 31, 2021 and 2020.

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7. PETROLEUM AND NATURAL GAS INTERESTS

Cost	Well Equipment	Acquisition and Lease	Asset Retirement	Total
Balance at December 31, 2019	\$ 90,000	\$ 1,412,275	\$ 95,460	\$ 1,597,735
Additions	22,432	49,204	513	72,149
Balance at December 31, 2020	112,432	1,461,479	95,973	1,669,884
Additions	-	7,144	202,794	209,938
Balance at December 31, 2021	\$ 112,432	\$ 1,468,623	\$ 298,767	\$ 1,879,822

Accumulated Depletion, Depreciation and Impairment	Well Equipment	Acquisition and Lease	Asset Retirement	Total
Balance at December 31, 2019	\$ 90,000	\$ 1,104,472	\$ 38,197	\$ 1,232,669
Additions	6,366	67,064	11,404	84,834
Balance at December 31, 2020	96,366	1,171,536	49,601	1,317,503
Additions	4,673	54,961	2,258	61,892
Balance at December 31, 2021	\$ 101,039	\$ 1,226,497	\$ 51,859	\$ 1,379,395

Carrying amounts	Well Equipment	Acquisition and Lease	Asset Retirement	Total
December 31, 2020	\$ 16,066	\$ 289,943	\$ 46,372	\$ 352,381
December 31, 2021	\$ 11,393	\$ 242,126	\$ 246,908	\$ 500,427

Strikewell Capital owns a 90% working interest in the Garrington Property. ZNX Energy owns the remaining 10% working interest in the Garrington Property. In March 2020, the Company closed the Debt Reduction and Share Property Transfer Agreement with Summus Solutions N.V. Pursuant to the Agreement, the Company purchased 100% of the shares of ZNX Energy (note 16).

During the year ended December 31, 2021, management performed an assessment of potential impairment indicators and determined that no such indicators were present.

During the year ended December 31, 2020, management performed an assessment of potential impairment indicators and determined that due to a decline in crude oil and natural gas prices that an impairment test on its developed and producing petroleum and natural gas assets was required.

During the year ended December 31, 2020, the Company determined that the recoverable amounts of its petroleum and natural gas interests exceeded their carrying amounts. Accordingly, no impairment was recognized. The recoverable amounts were determined based on a value in use model using a discounted cash flow method and categorized in level 3 of the fair value hierarchy. Key assumptions in the determination of cash flows from reserves include crude oil and natural gas prices, loss factors and discount rates specific to the underlying composition of assets residing the CGU. The pre-tax discount rate used in 2021 was 34.79%.

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.

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8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2021	December 31, 2020
Trade payables	\$ 507,446	\$ 524,527
Interest payable (notes 9 and 10)	7,364,522	5,466,758
Due to related party (note 14)	146,827	146,827
Accrued liabilities	33,500	34,654
	\$ 8,052,295	\$ 6,172,766

9. LOANS PAYABLE

- (a) Loan 1 – Loan payable to a significant shareholder of the Company:

	Total
Carrying amount, December 31, 2021, 2020, 2019	\$ 865,924

This loan between the Company and Mr. John Hislop has a principal balance of \$865,924, is secured by the assets of the Company and bore interest at 10% per annum payable semi-annually and matured on June 1, 2019. At the inception of the loan, the loan was revalued using an estimated effective interest rate of 30% based on comparable market interest rates and a gain of \$971,118 was recorded in contributed surplus to reflect the benefit having been received from a party in their capacity as an equity holder. The loan was fully accreted at December 31, 2019.

The promissory note was renewed on June 1, 2019 with an updated maturity date of June 1, 2026 and an increased interest rate from 10% to 15% per annum accrued quarterly and payable on demand. All other terms of the loan remained the same. Included in accounts payable and accrued liabilities is accrued interest of \$1,406,261 as at December 31, 2021 (2020 - \$1,276,372).

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9. LOANS PAYABLE (continued)

- (b) Loan 2 – Loan payable to a company controlled by a significant shareholder of the Company:

	Total
Carrying amount, December 31, 2019	\$ 42,899
Accretion expense	799
Carrying amount, December 31, 2020	43,698
Accretion expense	952
Carrying amount, December 31, 2021	\$ 44,650

On February 1, 2013, the Company entered into a promissory note with Caravel Management Corp. (“Caravel”) for an amount up to \$200,000, which bears interest calculated quarterly at a rate of 15% per annum and payable on demand which matured on January 31, 2018. This promissory note was renewed on January 31, 2018 with an updated maturity date of January 31, 2025. Interest and principal are payable on maturity. All other terms of the loan remained the same. On January 31, 2018, the loan was revalued to account for current comparable market interest rates, and as a result, the effective interest rate was determined to be 18% per annum and a gain of \$4,833 was deemed to have been received upon the extension of the due date of the loan. This gain was recorded in contributed surplus to reflect the benefit of having been received from a party in their capacity as an equity holder.

As of December 31, 2021, the Company owes Caravel the principal sum of \$46,500. Included in accounts payable and accrued liabilities is accrued interest of \$61,787 as at December 31, 2021 (2020 - \$54,812).

- (c) Loan 3 – Loan payable to a significant shareholder of the Company:

	Total
Carrying amount, December 31, 2019	\$ 742,597
Accretion expense	81,383
Carrying amount, December 31, 2020	823,980
Accretion expense	108,686
Carrying amount, December 31, 2021	\$ 932,666

On July 1, 2015, the Company entered into a promissory note with Mr. John Hislop for \$1,000,000, which bears interest calculated quarterly at a rate of 15% per annum payable on maturity date of June 30, 2022. At the inception of the loan, the loan was revalued using an estimated effective interest rate of 30% per annum and a gain of \$434,002 was recorded in contributed surplus to reflect the benefit having been received from a party in their capacity as an equity holder. As of December 31, 2021, the Company owes Mr. John Hislop the principal sum of \$1,000,000. Included in accounts payable and accrued liabilities is accrued interest of \$975,616 as at December 31, 2021 (2020 - \$825,616).

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9. LOANS PAYABLE (continued)

(d) Loan 4 – Loan payable to a significant shareholder of the Company:

		Total
Carrying amount, December 31, 2019	\$	52,356
Accretion expense		5,699
Carrying amount, December 31, 2020		58,055
Accretion expense		7,705
Carrying amount, December 31, 2021	\$	65,760

On August 25, 2015, the Company entered into a promissory note with Mr. John Hislop for \$75,000, which bears interest calculated quarterly at a rate of 15% per annum payable on maturity date of August 25, 2022. At the inception of the loan, the loan was revalued using an estimated effective interest rate of 30% per annum and a gain of \$34,442 was recorded in contributed surplus to reflect the benefit having been received from a party in their capacity as an equity holder. As of December 31, 2021, the Company owes Mr. John Hislop the principal sum of \$75,000. Included in accounts payable and accrued liabilities is accrued interest of \$72,000 as at December 31, 2020 (2020 - \$60,658).

10. NOTES PAYABLE

	Vendor Note	Second Note	Total
Face value of notes payable	\$ 6,858,181	\$ 3,805,522	\$ 10,663,703

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 (“the promissory notes”) were due for repayment January 1, 2014 and bore 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.

On January 1, 2014, the promissory notes were renewed and were due for repayment December 31, 2018 and bore interest at 15% per annum.

On January 1, 2014, the effective interest rate of the loan was estimated to be 30% per annum based on current comparable market interest rates. Gains of \$1,536,299 and \$831,329 were recognized on the vendor and second notes recorded in contributed surplus to reflect the benefits having been received from parties in their capacity as equity holders.

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10. NOTES PAYABLE (continued)

On January 1, 2019, the Company entered into a new promissory note in the amount of \$7,032,615 at an interest rate of 15% per annum for a period of 7 years, expiring on December 31, 2025. This promissory note replaces the Vendor Note of \$4,018,636 plus accrued interest of \$3,013,979 which expired on December 31, 2018.

On January 1, 2019, the Company entered into a new promissory note in the amount of \$3,805,522 at an interest rate of 15% per annum for a period of 7 years, expiring on December 31, 2025. This promissory note replaces the Second Note of \$2,174,584 plus accrued interest of \$1,630,938 which expired on December 31, 2018.

On October 1, 2020, the Company closed an Assignment of Debt agreement with Mr. John Hislop. Pursuant to the agreement, the Company assigned the debt owing from Summus Solutions in the aggregate amount of \$174,434 to Mr. Hislop, payable by way of a reduction of debt owing to Mr. Hislop. The amount was offset against the Vendor Note for a revised principal balance of \$6,858,181.

All assets of the Company have been pledged as security for the notes payable. The Vendor Note is due to Mr. John Hislop. The Second Note is due to Caravel.

Included in accounts payable and accrued liabilities is accrued interest of \$4,848,856 as at December 31, 2021 (2020 - \$3,249,300).

11. DECOMMISSIONING OBLIGATIONS

A reconciliation of the decommissioning obligations is provided below:

Balance, December 31, 2019	\$	96,067
Accretion		(1,069)
Change in estimate		(10,870)
<u>Additional working interest acquired (note 16)</u>		<u>14,984</u>
Balance, December 31, 2020		99,112
Accretion		(257)
<u>Change in estimate</u>		<u>202,794</u>
<u>Balance, December 31, 2021</u>	<u>\$</u>	<u>301,649</u>

During the year ended December 31, 2021, the Company revised its estimates of abandonment and reclamation costs of its petroleum and natural gas properties. The revisions were made due to inflation and costs generally increasing. The majority of the costs will be incurred after 2036. An inflation factor of 4.80% (2020 - 1.50%) has been applied to the estimated decommissioning cost. A risk-free rate of 1.88% (2020 - 1.24%) was used to calculate the fair value of the decommissioning obligations.

In March 2020, the Company closed the Debt Reduction and Share Property Transfer Agreement with Summus Solutions N.V. Pursuant to the Agreement, the Company purchased 100% of the shares of ZNX Energy including its 10% interest in the Garrington Property (note 16).

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12. CAPITAL STOCK

(a) Authorized

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

(b) Issued

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.

No common shares were issued during the years ended December 31, 2021 and 2020.

(c) Stock options

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 the years ended December 31, 2021 and 2020.

13. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27.00% (2020 - 27.00%) to loss before income taxes. The reasons for the differences are as follows:

	2021	2020
Loss before income taxes	\$ (1,974,440)	\$ (2,319,156)
Statutory income tax rate	27.00%	27.00%
Expected income tax recovery	(533,099)	(626,172)
Items not deductible for income tax purposes	31,683	23,729
Under provided in prior years	-	65,772
Reversal of temporary differences	(31,683)	54,599
Unused tax losses and tax offsets not recognized	533,099	482,072
Income tax recovery	\$ -	\$ -

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13. INCOME TAXES (continued)

The Company recognizes tax benefits on losses or other deductible amounts where it is probable future taxable income for the recognition of deferred tax assets has been met. The Company carries loans from shareholders with interest lower than market rates. This gives rise to temporary differences that results in deferred tax liabilities for which deferred tax assets can be recognized consisting of the following amount:

	2021	2020
Deferred tax liability on equity component of debt	\$ (78,421)	\$ (52,857)
Deferred tax liability on exploration expenditures	(51,979)	-
Deferred tax asset from non-capital losses recognized to offset liability	130,400	52,857
	\$ -	\$ -

Additionally, the Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	2021	2020
Excess of unused exploration expenditures for Canadian tax purposes over carrying value of mineral property interests	\$ 6,729,393	\$ 6,859,299
Excess of undepreciated capital cost over carrying value of fixed assets	2,487,588	2,487,589
Asset retirement obligation	201,400	58
Non-capital losses carried forward	18,150,386	16,248,577
Net capital losses carried forward	38,344	38,344
Unrecognized deductible temporary differences	\$ 27,607,111	\$ 25,633,867

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13. INCOME TAXES (continued)

The Company has accumulated non-capital losses for income tax purposes of \$18,281,000. These losses expire as follows:

2026	\$ 408,000
2027	566,000
2028	681,000
2029	104,000
2030	885,000
2031	1,474,000
2032	1,423,000
2033	126,000
2034	1,143,000
2035	1,140,000
2036	1,567,000
2037	1,430,000
2038	1,301,000
2039	2,082,000
2040	2,156,000
2041	1,795,000
	\$ 18,281,000

The Company has cumulative net capital losses of \$38,344 that may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items, except to offset the deferred tax liability noted above, as it is not probable that future taxable profit will be available against which the Company can utilize these benefits.

14. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2021, the transactions made with related parties to the Company not otherwise disclosed in these consolidated financial statements consist of the following:

- (a) Directors' fees of \$24,450 (2020 - \$19,400) were paid to key management personnel. Key management comprises of officers and directors of the Company. 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, 2021 and 2020.
- (b) Included in accounts payable is \$146,827 (2020 - \$146,827) in trade payables due to a significant shareholder of the Company.
- (c) Administration fees of \$60,000 (2020 - \$60,000) were paid or payable to Caravel. Included in accounts payable and accrued liabilities is \$260,127 (2020 - \$259,627) in trade payables due to Caravel.

The amounts due to related parties included in accounts payable and accrued liabilities are non-interest-bearing, unsecured and due on demand.

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15. SEGMENT DISCLOSURES

The Company operates in one reportable operating segment, being the exploration and development of petroleum and natural gas interests. The Company's assets and activities are located in Canada.

16. ACQUISITION OF ZNX ENERGY LTD.

On March 20, 2020, the Company completed a Debt Reduction and Share Property Agreement (the "Agreement") with Summus Solutions N.V. ("Summus"). Pursuant to the terms of the Agreement the Company settled \$195,000 of debt owing from Summus in exchange for 100% of the shares of ZNX Energy Ltd. ("ZNX"). ZNX owns a 10% working interest in the Garrington Property. Pursuant to the acquisition of ZNX, the Company owns 100% working interest in the Garrington Property.

Furthermore, pursuant to the terms of the Agreement the Company became the owner of ZNX's net income from the effective date of the agreement, October 31, 2019 until the closing date. The net income has been applied as a closing adjustment to the purchase consideration.

The Company has accounted for the transaction as the settlement of debt owing from Summus with net assets of ZNX. The Company has accounted for the acquisition using the acquisition method of accounting whereby the assets acquired, and liabilities assumed, were recorded at their estimated fair values at the acquisition date as follows:

Fair value of net assets acquired		
Cash	\$	148,689
Accounts receivable		238,928
Prepaid expenses		5,133
Petroleum and natural gas interest		79,855
Accounts payable		(428,143)
Asset retirement obligation		(14,984)
	\$	29,478
Consideration paid		
Settlement of debt	\$	29,478

During the year ended December 31, 2020, the Company recognized a loss on the settlement of receivables of \$165,522 plus net income of \$6,271 as a closing adjustment for a net loss on settlement of receivables of \$159,251.

Following the closing of the transaction, ZNX became a wholly owned subsidiary of the Company, which now owns 100% working interest in the Garrington property and associated production assets.

Post transaction a net debt of \$156,016 was owing to the Company from Summus. The balance of the debt owing to the Company accrued interest at a rate of 10% per annum, compounding monthly from January 1, 2020 to June 30, 2020. The interest rate then increased to 25% per annum, compounding monthly from July 1, 2020 until it is paid in its entirety. The net balance was due in full on September 30, 2020.

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(Expressed in Canadian dollars)

16. ACQUISITION OF ZNX ENERGY LTD. (continued)

On September 30, 2020, the Company entered into an Assignment of Debt Agreement with Mr. Hislop (the "Assignment") whereby the balance owed to the Company of \$174,434, which included \$18,418 in accrued interest, was assigned to Mr. Hislop payable by way of a debt reduction of the Company's indebtedness to Mr. Hislop.