

# **STRIKEWELL ENERGY CORP.**

## **Unaudited Condensed Interim Consolidated Financial Statements For the Nine Months Ended September 30, 2023 and 2022 (Expressed in Canadian Dollars)**

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## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102, Part 4, subsection 4.3(3) released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed interim consolidated financial statements as at and for the nine months ended September 30, 2023 and 2022.

# Strikewell Energy Corp.

## Condensed Interim Consolidated Statements of Financial Position

(Unaudited - Prepared by Management)

(Expressed in Canadian dollars)

	Notes	As at September 30, 2023	As at December 31, 2022
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		\$ 491,520	\$ 475,178
Accounts receivable	5	133,280	199,915
Prepaid expenses		8,750	5,000
		<b>633,550</b>	<b>680,093</b>
<b>Non-Current Assets</b>			
Petroleum and natural gas interests	7	226,923	289,677
		<b>\$ 860,473</b>	<b>\$ 969,770</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	8, 9, 10, 13	\$ 10,383,126	\$ 8,924,597
		<b>10,383,126</b>	<b>8,924,597</b>
<b>Non-Current Liabilities</b>			
Loans payable	9	3,116,485	3,115,491
Notes payable	10	10,663,703	10,663,703
Decommissioning obligations	11	168,611	168,611
		<b>24,331,925</b>	<b>22,872,402</b>
<b>SHAREHOLDERS' DEFICIENCY</b>			
Capital stock	12	16,771,855	16,771,855
Contributed surplus	9, 10	3,982,412	3,982,412
Deficit		(44,225,719)	(42,656,899)
		<b>(23,471,452)</b>	<b>(21,902,632)</b>
		<b>\$ 860,473</b>	<b>\$ 969,770</b>

Approved on behalf of the Board:

\_\_\_\_\_  
"David Hislop"

Director

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"Peter Bryant"

Director

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

# Strikewell Energy Corp.

## Condensed Interim Consolidated Statements of Operations and Comprehensive Loss For the period ended September 30, 2023 with comparative figures for 2022

(Unaudited - Prepared by Management)

(Expressed in Canadian dollars)

	Notes	For the nine months ended September 30, 2023	For the three months ended September 30, 2023	For the nine months ended September 30, 2022	For the three months ended September 30, 2022
<b>Revenue</b>					
Petroleum and natural gas	\$	629,680	218,386	\$ 846,985	238,303
Royalties		(149,045)	(45,762)	(261,151)	(89,479)
		<b>480,635</b>	<b>172,624</b>	585,834	148,824
<b>Direct expenses</b>					
Production		282,930	97,190	238,619	70,065
Depletion and accretion		69,900	23,300	45,900	15,300
		<b>352,830</b>	<b>120,490</b>	284,519	85,365
<b>Operating income (loss)</b>					
		<b>127,805</b>	<b>52,134</b>	301,315	63,459
<b>General and administrative expenses</b>					
Administration fees	13c	90,000	30,000	55,000	25,000
Directors' and officers' fees	13a	18,900	6,300	18,900	6,300
Filing and transfer agent fees		13,926	5,707	14,588	6,198
Insurance		11,250	3,750	13,225	3,750
Interest and accretion on loans and notes payable	9, 10	1,547,266	521,057	1,537,998	522,994
Office and miscellaneous		2,683	540	2,983	1,129
Professional fees		12,600	8,753	8,527	4,120
		<b>1,696,625</b>	<b>576,107</b>	1,651,220	569,490
<b>Net loss and comprehensive loss for the period</b>					
		<b>(1,568,820)</b>	<b>(523,973)</b>	(1,349,905)	(506,031)
<b>Basic and diluted loss per share</b>					
	\$	<b>(0.18)</b>	<b>(0.06)</b>	\$ (0.16)	(0.06)
<b>Weighted average number of common shares outstanding</b>					
		<b>8,626,862</b>	<b>8,626,862</b>	8,626,862	8,626,862

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

## Strikewell Energy Corp.

### Condensed Interim Consolidated Statements of Changes in Shareholders' Deficiency For the period ended September 30, 2023 and 2022

(Unaudited - Prepared by Management)

(Expressed in Canadian dollars)

	Number of Shares	Capital Stock	Contributed Surplus	Deficit	Total
<b>Balance as at January 1, 2022</b>	8,626,862	\$ 16,771,855	\$ 3,982,412	\$ (40,752,482)	\$ (19,998,215)
Net loss for the period	-	-	-	(1,349,905)	(1,349,905)
<b>Balance as at September 30, 2022</b>	<b>8,626,862</b>	<b>\$ 16,771,855</b>	<b>\$ 3,982,412</b>	<b>\$ (42,102,387)</b>	<b>\$ (21,348,120)</b>

	Number of Shares	Capital Stock	Contributed Surplus	Deficit	Total
<b>Balance as at January 1, 2023</b>	8,626,862	\$ 16,771,855	\$ 3,982,412	\$ (42,656,899)	\$ (21,902,632)
Net loss for the period	-	-	-	(1,568,820)	(1,568,820)
<b>Balance as at September 30, 2023</b>	<b>8,626,862</b>	<b>\$ 16,771,855</b>	<b>\$ 3,982,412</b>	<b>\$ (44,225,719)</b>	<b>\$ (23,471,452)</b>

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

# Strikewell Energy Corp.

## Condensed Interim Consolidated Statements of Cash Flows For the Period Ended September 30, 2023 and 2022

(Unaudited - Prepared by Management)

(Expressed in Canadian dollars)

	Notes	For the nine months ended September 30, 2023	For the nine months ended September 30, 2022
<b>Operating activities</b>			
Net loss for the period		\$ (1,568,820)	\$ (1,349,905)
Items not involving cash:			
Depletion and accretion	7	69,900	45,900
Accrued interest and accretion on loans and notes payable	9,10	1,547,267	1,537,998
		48,347	233,993
Changes in non-cash working capital:			
Accounts receivable		66,635	22,881
Prepaid expenses		(3,750)	(1,775)
Accounts payable and accrued liabilities		(88,639)	(29,579)
<b>Cash provided by (used) in operating activities</b>		<b>22,592</b>	<b>225,520</b>
<b>Investing activities</b>			
Petroleum and natural gas interest additions		(6,250)	(7,146)
<b>Cash used in investing activities</b>		<b>(6,250)</b>	<b>(7,146)</b>
<b>Inflow (outflow) of cash</b>		<b>16,342</b>	<b>218,374</b>
<b>Cash, beginning of the period</b>		<b>475,178</b>	<b>225,913</b>
<b>Cash, end of the period</b>		<b>\$ 491,520</b>	<b>\$ 444,287</b>

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

# Strikewell Energy Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

### For the Nine Months Ended September 30, 2023 and 2022

*(Expressed in Canadian dollars)*

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#### 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 16<sup>th</sup> 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 unaudited condensed interim consolidated financial statements (“interim 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 \$1,568,820 (2022 - \$1,349,905) for the nine months ended September 30, 2023, and as at that date, has a working capital deficiency of \$9,749,576 (December 31, 2022 - \$8,244,504) and an accumulated deficit of \$44,225,719 (December 31, 2022 - \$42,656,899), 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 Company’s business and results of operations may be 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. To date, the Company has not had direct implications on its operations.

These matters indicate material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern. These interim financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

**Strikewell Energy Corp.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Nine Months Ended September 30, 2023 and 2022**

*(Expressed in Canadian dollars)*

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**2. BASIS OF PREPARATION**

(a) Statement of compliance

These interim financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

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

(c) Functional and presentation currency

These interim 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 interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that may affect the reported amounts of assets, liabilities, income, and expenses. 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.

*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.



**Strikewell Energy Corp.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Nine Months Ended September 30, 2023 and 2022**

*(Expressed in Canadian dollars)*

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**2. BASIS OF PREPARATION (continued)**

(d) Use of estimates and judgments (continued)

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.

Modification versus extinguishment of financial liabilities

Judgment is required in applying IFRS 9 Financial Instruments ("IFRS 9") to determine whether the amended terms of the loan agreements are a substantial modification of an existing financial liability and whether it should be accounted for as an extinguishment of the original financial liability.

*Critical accounting estimates*

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.

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.

**Strikewell Energy Corp.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Nine Months Ended September 30, 2023 and 2022**

*(Expressed in Canadian dollars)*

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**2. BASIS OF PREPARATION (continued)**

(d) Use of estimates and judgments (continued)

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 interim financial statements

The interim financial statements of Strikewell for the nine months ended September 30, 2023 and 2022 were approved and authorized for issue by the Board of Directors on November 21, 2023.

**3. SIGNIFICANT ACCOUNTING POLICIES**

(a) Basis of consolidation

(i) Subsidiary

The interim 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 interim financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

**Strikewell Energy Corp.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Nine Months Ended September 30, 2023 and 2022**  
*(Expressed in Canadian dollars)*

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(a) 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 consolidated statement of operations.

*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.

**Strikewell Energy Corp.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Nine Months Ended September 30, 2023 and 2022**

*(Expressed in Canadian dollars)*

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(a) Financial instruments

(ii) Financial assets

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.

(i) 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.

(ii) 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.

# Strikewell Energy Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the Nine Months Ended September 30, 2023 and 2022

(Expressed in Canadian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 September 30, 2023, the Company has one CGU, which consists of the Garrington Property.

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.

#### 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:

**Strikewell Energy Corp.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Nine Months Ended September 30, 2023 and 2022**

*(Expressed in Canadian dollars)*

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(d) Petroleum and natural gas interests (continued)

Depletion and depreciation (continued)

- 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.

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.

**Strikewell Energy Corp.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Nine Months Ended September 30, 2023 and 2022**

*(Expressed in Canadian dollars)*

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(e) Impairment (continued)

Non-financial assets (continued)

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.

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.

# Strikewell Energy Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the Nine Months Ended September 30, 2023 and 2022

*(Expressed in Canadian dollars)*

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) 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.

(g) 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.



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*(Expressed in Canadian dollars)*

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(h) 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 interim 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 interim financial statements.

**4. FINANCIAL INSTRUMENTS**

Fair value and classification

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 fair value of the Company's cash, accounts receivable and accounts payable and accrued liabilities are equivalent to their carrying values due to their short-term nature. The Company's loans payable and notes payable are level 2 of the fair value hierarchy.

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.

**Strikewell Energy Corp.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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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 September 30, 2023.

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 September 30, 2023 and December 31, 2022 is as follows:

Due Date	September 30, 2023	December 31, 2022
0 – 60 days	\$ 2,132	\$ 68,767
61 days +	131,148	131,148
	\$ 133,280	\$ 199,915

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:

	September 30, 2023	December 31, 2022
Trade receivables	\$ 133,280	\$ 199,915

(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 September 30, 2023 of \$491,520 (December 31, 2022 - \$475,178), accounts receivable of \$133,280 (December 31, 2022 - \$199,915), accounts payable and accrued liabilities of \$10,383,126 (December 31, 2022 - \$8,924,597) and a working capital deficiency of \$9,749,576 (December 31, 2022 - \$8,244,504). 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 September 30, 2023:

Due Date	Accounts Payable and Accrued Liabilities (note 8)	Loans Payable (note 9)	Notes Payable (note 10)	Total
0 to 30 days	\$ 10,383,126	\$ -	\$ -	\$ 10,383,126
31 days to 1 year	-	-	-	-
2 to 5 years	-	3,116,485	10,663,703	13,780,188
	\$ 10,383,126	\$ 3,116,485	\$ 10,663,703	\$ 24,163,314

The amounts listed below are the undiscounted contractual maturities for financial liabilities held by the Company as at December 31, 2022:

Due Date	Accounts Payable and Accrued Liabilities (note 8)	Loans Payable (note 9)	Notes Payable (note 10)	Total
0 to 30 days	\$ 8,924,597	\$ -	\$ -	\$ 8,924,597
31 days to 1 year	-	-	-	-
2 to 5 years	-	3,115,491	10,663,703	13,779,194
	\$ 8,924,597	\$ 3,115,491	\$ 10,663,703	\$ 22,703,791

**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 nine months ended September 30, 2023.

## Strikewell Energy Corp.

### Notes to the Condensed Interim Consolidated Financial Statements For the Nine Months Ended September 30, 2023 and 2022

(Expressed in Canadian dollars)

#### 7. PETROLEUM AND NATURAL GAS INTERESTS

Cost	Well Equipment	Acquisition and Lease	Asset Retirement	Total
Balance at December 31, 2021	\$ 112,432	\$ 1,468,623	\$ 298,767	\$ 1,879,822
Additions	-	7,146	-	7,146
Change in estimate	-	-	(124,628)	(124,628)
Balance at December 31, 2022	112,432	1,475,769	174,139	1,762,340
Additions	-	7,146	-	6,250
Change in estimate	-	-	-	-
Balance at September 30, 2023	\$ 112,432	\$ 1,482,915	\$ 174,139	\$ 1,769,486

Accumulated Depletion, Depreciation and Impairment	Well Equipment	Acquisition and Lease	Asset Retirement	Total
Balance at December 31, 2021	\$ 101,039	\$ 1,226,497	\$ 51,859	\$ 1,379,395
Additions	8,099	71,757	13,412	93,268
Balance at December 31, 2022	109,138	1,298,254	65,271	1,472,663
Additions	3,294	63,508	3,098	69,900
Balance at September 30, 2023	\$ 112,432	\$ 1,361,762	\$ 68,369	\$ 1,542,563

Carrying amounts	Well Equipment	Acquisition and Lease	Asset Retirement	Total
December 31, 2022	\$ 3,294	\$ 177,515	\$ 108,869	\$ 289,677
September 30, 2023	\$ -	\$ 121,153	\$ 105,770	\$ 226,923

Strikewell Capital owns a 90% working interest in the Garrington Property. ZNX Energy owns the remaining 10% working interest in the Garrington Property.

During the year ended December 31, 2022, management performed an assessment of potential impairment indicators and determined that no such indicators were present.

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.

**Strikewell Energy Corp.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Trade payables	\$ 469,218	\$ 524,741
Interest payable (notes 9 and 10)	9,763,316	8,217,042
Due to related party (note 13)	146,827	146,827
Accrued liabilities	3,766	35,987
	<b>\$ 10,383,126</b>	<b>\$ 8,924,597</b>

**9. LOANS PAYABLE**

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

	<b>Total</b>
Carrying amount, September 30, 2023 and December 31, 2022	\$ 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 \$1,633,566 as at September 30, 2023 (December 31, 2022 - \$1,536,149).

**Strikewell Energy Corp.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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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, 2021	\$ 44,650
Accretion expense	1,136
Carrying amount, December 31, 2022	45,786
Accretion expense	993
Carrying amount September 30, 2023	\$ 46,779

On January 1, 2018, 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. Interest and principal are payable on maturity. On initial recognition, the fair value of the principal balance was determined using an effective interest rate of 18%.

As of September 30, 2023, the Company owes Caravel the principal sum of \$46,500. Included in accounts payable and accrued liabilities is accrued interest of \$73,993 as at September 30, 2023 (December 31, 2022 - \$68,762).

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

	Total
Carrying amount, December 31, 2021	\$ 932,666
Accretion expense	67,334
Interest added to loan principal	1,050,000
Carrying amount, December 31, 2022	2,050,000
Accretion expense	-
Carrying amount, September 30, 2023	\$ 2,050,000

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.

On July 1, 2022, the promissory note was renewed for the outstanding principal sum and accrued interest for a total amount of \$2,050,000. The loan will mature on June 30, 2029 and all other terms remain the same.

As of September 30, 2023, the Company owes Mr. John Hislop the principal sum of \$2,050,000. Included in accounts payable and accrued liabilities is accrued interest of \$385,623 as at September 30, 2023 (December 31, 2022 - \$155,630).

**Strikewell Energy Corp.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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*(Expressed in Canadian dollars)*

**9. LOANS PAYABLE (continued)**

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

	Total
Carrying amount, December 31, 2021	\$ 65,761
Accretion expense	9,239
Interest added to loan principal	78,781
Carrying amount, December 31, 2022	153,781
Accretion expense	-
Carrying amount, September 30, 2023	153,781

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.

On August 25, 2022, the promissory note was renewed for the outstanding principal sum and accrued interest for a total amount of \$153,781. The loan will mature on August 25, 2029 and all other terms remain the same.

As of September 30, 2023, the Company owes Mr. John Hislop the principal sum of \$153,781. Included in accounts payable and accrued liabilities is accrued interest of \$25,342 as at September 30, 2023 (December 31, 2022 - \$8,089).

**10. NOTES PAYABLE**

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

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 seven 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 seven 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 debt owing to the Company 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 \$7,644,791 as at September 30, 2023 (December 31, 2022 - \$6,448,411).



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**11. DECOMMISSIONING OBLIGATIONS**

A reconciliation of the decommissioning obligations is provided below:

Balance, December 31, 2021	\$ 301,649
Accretion	(8,410)
Change in estimate	(124,628)
Balance, December 31, 2022	168,611
Accretion	-
Change in estimate	-
Balance, September 30, 2023	\$ 168,611

During the year ended December 31, 2022, 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 2037. An inflation factor of 3.20% has been applied to the estimated decommissioning cost. A risk-free rate of 2.84% was used to calculate the fair value of the decommissioning obligations. The assumptions have remained relatively unchanged since the year ended December 31, 2022 and thus no change to the obligation has been recorded at September 30, 2023.

**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 nine months ended September 30, 2023 and the year ended December 31, 2022.

(c) Stock options

On August 8, 2022, the Company announced it had received both shareholder and TSX Venture Exchange approval on its 2022 Stock Option Plan (the "2022 Plan"). The 2022 Plan is a 20% fixed stock option plan whereby, subject to adjustments as provided in the 2022 Plan, the aggregate number of plan shares reserved for issuance under the 2022 Plan, including any other common shares which may be issued pursuant to any other stock options granted by the Company outside of the 2022 Plan, shall not exceed twenty percent (20%) of the total number of issued common shares of the Company (calculated on a non-diluted basis) at the date of implementation of the 2022 Plan by the Company, being 1,725,372 plan shares. The number of optioned shares granted under the 2022 Plan cannot exceed the number of plan shares. There were no stock options issued or outstanding during the nine months ended September 30, 2023 and the year ended December 31, 2022.

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**13. RELATED PARTY TRANSACTIONS**

During the nine months ended September 30, 2023, the transactions made with related parties to the Company not otherwise disclosed in these interim financial statements consist of the following:

- (a) Directors fees of \$18,900 (2022 - \$18,900) were incurred 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 nine months ended September 30, 2023.
- (b) Included in accounts payable is \$146,827 (2022 - \$146,827) in trade payables due to a significant shareholder of the Company.
- (c) Administration fees of \$90,000 (2022 - \$55,000) were incurred to Caravel. Included in accounts payable and accrued liabilities is \$259,627 (2022 - \$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.

**14. 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.