

PACIFIC RODERA ENERGY INC.

(formerly Pacific Roderer Ventures Inc.)

(An Exploration Stage Company)

FOR THE NINE MONTHS ENDED AUGUST 31, 2004

(expressed in Canadian dollars)

(Unaudited – Prepared by management)

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PACIFIC RODERA ENERGY INC.

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company.

The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

PACIFIC RODERA ENERGY INC.
(formerly Pacific Roderia Ventures Inc.)

(An Exploration Stage Company)

BALANCE SHEETS

AS AT AUGUST 31, 2004 AND NOVEMBER 30, 2003

(expressed in Canadian dollars)

	August 31, 2004 (Unaudited) \$	November 30, 2003 (Audited) \$
ASSETS		
CURRENT ASSETS		
Cash	429,351	31,096
Term Deposit	1,006,938	—
Accounts receivable	6,476	31,459
Prepaid expenses and funds held in trust	132,124	2,524
Advances to related parties (Note 7)	11,000	25,000
Total Current Assets	1,585,889	90,079
Cash Committed For Oil and Gas Exploration	1,057,012	528,237
Refundable Deposits (Note 3)	590,092	179,342
Property and Equipment (Note 4)	12,541	6,904
Oil and Gas Properties (Notes 5)	2,992,202	1,205,333
Total Assets	6,237,736	2,009,895
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable (Note 7)	180,825	159,203
Accrued liabilities	—	19,710
Total Liabilities	180,825	178,913
STOCKHOLDERS' EQUITY		
Common Stock, 100,000,000 shares authorized with no par value; 39,410,438 and 24,617,650 respectively (Note 6)	22,633,357	18,107,969
Additional Paid In Capital	2,161,004	94,130
Deferred Compensation (Note 6(e))	(1,743,075)	(45,269)
Deficit Accumulated During The Exploration Stage	(16,994,375)	(16,325,848)
Total Stockholders' Equity	6,056,911	1,830,982
Total Liabilities and Stockholders' Equity	6,237,736	2,009,895

APPROVED BY THE DIRECTORS:

/s/ "Michael K. Barton"
CEO, Director

/s/ "C. Geoffrey Hampson"
Director

The accompanying notes are an integral part of the financial statements.

PACIFIC RODERA ENERGY INC.
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STATEMENTS OF OPERATIONS AND DEFICIT

(expressed in Canadian dollars)

(Unaudited – prepared by management)

	Accumulated from Inception to August 31, 2004 \$	Three months ended August 31, 2004 2003 \$ \$		Nine months ended August 31, 2004 2003 \$ \$	
Revenue	–	–	–	–	–
Expenses					
Accounting and audit	217,784	4,275	3,251	10,775	5,251
Advertising and promotion	90,075	1,371	3,446	2,671	3,712
Amortization	15,857	568	385	2,309	1,220
Bad debts	125,891	–	–	–	–
Consulting	693,551	30,000	8,450	90,000	42,896
Interest and bank charges	120,212	3,295	669	3,654	1,048
Interest paid to former director	37,874	–	–	–	–
Legal	468,081	6,341	1,305	69,075	22,942
Management fees	265,375	–	–	–	–
Office and administration	213,545	9,802	4,299	29,418	15,701
Oil and gas properties written off	1,185,480	–	–	–	–
Rent	253,568	10,712	7,500	31,979	25,491
Stock-based compensation	417,929	(134,933)	–	369,068	–
Transfer agent, regulatory fees and shareholder relations	190,985	11,428	633	51,327	17,227
Travel and accommodation	85,509	19,208	1,869	26,055	5,837
Less: interest income	(143,104)	(13,788)	(1,132)	(17,804)	(5,951)
Total Expenses	4,238,612	(51,721)	30,675	668,527	135,374
Net Income (Loss) Before Discontinued Operations	(4,238,612)	51,721	(30,675)	(668,527)	(135,374)
Income (Loss) from Discontinued Operations	(12,755,763)	–	–	–	–
Net Income (Loss) For The Period	(16,994,375)	51,721	(30,675)	(668,527)	(135,374)
Net Income (Loss) Per Share – Basic		(0.00)	(0.00)	(0.02)	(0.01)
Weighted Average Shares Outstanding		32,724,521	20,473,450	28,937,771	17,114,450

(Diluted loss per share has not been presented as the result is anti-dilutive)

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PACIFIC RODERA ENERGY INC.
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STATEMENTS OF CASH FLOWS

(expressed in Canadian dollars)

(Unaudited – prepared by management)

	Three months ended		Nine months ended	
	August 31, 2004	August 31, 2003	August 31, 2004	August 31, 2003
	\$	\$	\$	\$
Cash Flows To Operating Activities				
Net income (loss) for the period	51,721	(30,675)	(668,527)	(135,374)
Adjustments to reconcile net loss to net cash used in operating activities				
Amortization	568	385	2,309	1,220
Stock-based compensation	(134,933)	–	369,068	–
Changes in operating assets and liabilities				
Amounts receivable	3,649	(2,122)	24,983	12,007
Prepaid expenses and funds held in trust	(129,600)	–	(129,600)	2,107
Advances to related parties	8,000	(5,946)	14,000	(9,738)
Accounts payable and accrued liabilities	13,396	(10,294)	1,912	(4,683)
Net Cash Used In Operating Activities	(187,199)	(48,652)	(385,855)	(134,461)
Cash Flows From Investing Activities				
Term deposit	(6,938)	–	(1,006,938)	–
Refundable deposits	(410,750)	–	(410,750)	–
Proceeds from disposition of interest in oil and gas property	–	–	–	–
Acquisition of property and equipment	–	–	(7,946)	–
Acquisition of and expenditures upon oil and gas properties	(671,084)	(440)	(1,786,869)	(459,276)
Less financed by cash committed for oil and gas exploration	–	9,009	528,237	399,146
Net Cash Provided By (Used In) Investing Activities	(1,088,772)	8,569	(2,684,266)	(60,130)
Cash Flows From Financing Activities				
Proceeds from issuance of shares, net of issuance costs	187,560	–	4,525,388	557,125
Stock subscriptions	–	–	–	–
Less committed for oil and gas exploration	191,132	–	(1,057,012)	(450,000)
Net Cash Provided By Financing Activities	378,692	–	3,468,376	107,125
Change In Cash	(897,279)	(40,083)	398,255	(87,466)
Cash, Beginning of Period	1,326,630	65,244	31,096	112,627
Cash, End of Period	429,351	25,161	429,351	25,161
Non-Cash Financing and Investing Activities				
Repayment of convertible notes	–	–	–	–
Issuance of common stock for finders' fees	–	–	–	–
Supplemental Disclosures				
Interest paid	–	–	–	–
Income taxes paid	–	–	–	–

The accompanying notes are an integral part of the financial statements.

PACIFIC RODERA ENERGY INC.
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NOTES TO FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED AUGUST 31, 2004

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1. EXPLORATION STAGE COMPANY

The Company was formed by the amalgamation, in the Province of British Columbia, Canada, of Pacific Royal Ventures Ltd. ("Pacific") and Roderia Diamond Corp. ("Roderia") (collectively the "predecessor companies"), on March 1, 1999. Both predecessor companies were involved in the acquisition, exploration and development of resource properties. The common shares of Pacific and Roderia were exchanged for shares of common stock of the Company on the basis of 5 Pacific common shares for each share of common stock of the Company, and 8 Roderia common shares for each share of common stock of the Company.

The Company's shares have traded on the TSX Venture Exchange in Canada since the amalgamation of Pacific and Roderia on March 1, 1999 under the symbol PRD.

The Company is in the exploration stage and has not yet realized any revenues from its planned operations. The Company's principal business plan is to acquire, explore and develop oil and gas properties and to ultimately seek earnings by exploiting the oil and gas claims. Upon location of a commercial oil and gas reserve, the Company will actively prepare the site for extraction and enter a development stage. At present, management devotes most of its activities to its existing oil and gas properties and to the raising of sufficient funds to further explore and develop these lands. The ability of the Company to emerge from the exploration stage with respect to any planned principal business activity is dependent upon its successful efforts to raise additional equity financing and/or attain profitable oil and gas operations. Management has plans to seek additional capital through private placements and public offerings of its common stock.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Interim Financial Statements

These interim unaudited financial statements have been prepared on the same basis as the annual financial statements and in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position, results of operations and cash flows for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for a full year or for any future period.

b. Basis of Accounting

These financial statements are prepared in conformity with U.S. generally accepted accounting principles and are presented in Canadian dollars. There are no financial statements using Canadian generally accepted accounting principles; however, there would be no material reconciling items other than presentation items.

c. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas require the use of management estimates relate to the determination of impairment of oil and gas properties. Actual results could differ from those estimates.

d. Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Property and Equipment

Furniture and equipment is stated at cost and is being amortized on a 20% declining balance basis.

f. Oil and Gas Properties

The Company uses the full cost method of accounting for exploration and development activities as defined by the United States Securities and Exchange Commission (“SEC”). Under this method of accounting, the costs for unsuccessful, as well as successful, exploration and development activities are capitalized as oil and gas properties. This includes any internal costs that are directly related to exploration and development activities but does not include any costs related to production, general corporate overhead or similar activities. Gain or loss on the sale or other disposition of oil and gas properties is not recognized, unless the gain or loss would significantly alter the relationship between capitalized costs and proved reserves of oil and natural gas attributable to a country.

The sum of net capitalized costs and estimated future development and abandonment costs of oil and gas properties will be amortized using the unit-of-production method once proven recoverable oil and gas reserves are found. Oil and gas properties’ carrying values do not purport to represent replacement or market values.

Operating fees received related to the properties in which the Company owns an interest are netted against operating expenses. Fees received in excess of costs incurred are recorded as a reduction to the full cost pool.

Oil and gas properties include costs that are excluded from capitalized costs being amortized. These amounts represent costs of investments in unproved properties and major development projects. The Company will exclude these costs on a country-by-country basis until proved reserves are found or until it is determined that the costs are impaired. All costs excluded are reviewed quarterly to determine if impairment has occurred. The amount of any impairment is transferred to the costs to be amortized (the depreciation, depletion and amortization (DD&A) pool) or a charge is made against earnings for those operations where a reserve base has not yet been established. For operations where a reserve base has not yet been established, an impairment requiring a charge to earnings may be indicated through evaluation of drilling results, relinquishing drilling rights or other information.

SFAS No. 34, “Capitalization of Interest Cost,” provides standards for the capitalization of interest cost as part of the historical cost of acquiring assets. Under Financial Accounting Standards Board Interpretation (FIN) No. 33, “Applying FASB Statement No. 34 to Oil and Gas Producing Operations Accounted for by the Full Cost Method,” costs of investments in unproved properties and major development projects, on which DD&A expense is not currently taken and on which exploration or development activities are in progress, qualify for capitalization of interest. Capitalized interest is calculated by multiplying the Company’s weighted-average interest rate on debt by the amount of qualifying costs excluded. Capitalized interest cannot exceed gross interest expense. As costs excluded are transferred to the DD&A pool, the associated capitalized interest is also transferred to the DD&A pool.

Under the full cost method of accounting, a ceiling test is performed each quarter. The full cost ceiling test is an impairment test prescribed by SEC Regulation S-X Rule 4-10. The ceiling test determines a limit, on a country-by-country basis, on the book value of oil and gas properties. The capitalized costs of proved oil and gas properties, net of accumulated DD&A and the related deferred income taxes, may not exceed the estimated future net cash flows from proved oil and gas reserves, generally using prices in effect at the end of the period held flat for the life of production, discounted at 10%, net of related tax effects, plus the cost of unevaluated properties and major development projects excluded from the costs being amortized. If capitalized costs exceed this limit, the excess is charged to expense and reflected as additional accumulated DD&A.

To date the Company has not discovered any proved resources.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Long-Lived Assets

In accordance with Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“SFAS”) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets”, the carrying value of intangible assets and other long-lived assets is reviewed on a regular basis for the existence of facts or circumstances that may suggest impairment. The Company recognizes an impairment when the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Impairment losses, if any, are measured as the excess of the carrying amount of the asset over its estimated fair value.

h. Joint Venture Operations

Substantially all of the Company’s exploration activities are conducted jointly with other oil and gas companies. Accordingly the accounts reflect only the Company’s proportionate interest in such activities.

i. Income Taxes

The Company utilizes the liability method of accounting for income taxes as set forth in SFAS No. 109, “Accounting for Income Taxes”. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized.

j. Comprehensive Loss

SFAS No. 130, “Reporting Comprehensive Income,” establishes standards for the reporting and display of comprehensive loss and its components in the financial statements. As at May 31, 2004 and 2003, the Company has no items that represent comprehensive loss and, therefore, has not included a schedule of comprehensive loss in the financial statements.

k. Stock-Based Compensation

The Company accounts for stock-based awards using the intrinsic value method of accounting in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (APB 25). Under the intrinsic value method of accounting, compensation expense is recognized if the exercise price of the Company’s employee stock options is less than the market price of the underlying common stock on the date of grant.

Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation,” (SFAS 123), established a fair value based method of accounting for stock-based awards. Under the provisions of SFAS 123, companies that elect to account for stock-based awards in accordance with the provisions of APB 25 are required to disclose the pro forma net income (loss) that would have resulted from the use of the fair value based method under SFAS 123.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Stock-Based Compensation (continued)

During the year, the Company adopted the disclosure requirements of Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure an Amendment of FASB Statement No. 123" (SFAS 148), to require more prominent disclosures in both annual and interim financial statements regarding the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

The pro forma information is as follows:

	Nine Months Ended August 31,	
	2004	2003
	\$	\$
Net loss — as reported	(668,527)	(135,374)
Add: Stock-based compensation expense included in net loss — as reported	369,068	—
Deduct: Stock-based compensation expense determined under fair value method	(677,398)	—
Net loss — pro forma	(976,857)	(135,374)
Net loss per share (basic) — as reported	(0.02)	(0.01)
Net loss per share (basic) — pro forma	(0.03)	(0.01)

Among other factors, the Black-Scholes model considers the expected life of the option and the expected volatility of the Company's stock price in arriving at an option valuation. For pro forma purposes, the estimated fair value of the Company's stock-based awards is amortized over the vesting period of the underlying instruments. For the period ended August 31, 2004, the fair value of options granted using Black-Scholes was determined using the following weighted average assumptions.

Expected dividend yield	0%
Risk-free interest rate	1-5%
Expected volatility	40%
Expected life from the vesting date (in years)	1.0

I. Basic and Diluted Net Income (Loss) per Share

The Company computes net income (loss) per share in accordance with SFAS No. 128, "Earnings per Share" (SFAS 128). SFAS 128 requires presentation of both basic and diluted earnings per share (EPS) on the face of the income statement. Basic EPS is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of common shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period including stock options, using the treasury stock method, and convertible preferred stock, using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential common shares if their effect is anti-dilutive. Loss per share information does not include the effect of the potential conversions of stock options, warrants or convertible debentures, as their effect would be anti-dilutive.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Financial Instruments

The carrying value of cash, term deposits, amounts receivable, advances to related parties, cash committed for oil and gas exploration, refundable deposits, accounts payable and accrued liabilities approximate fair market value because of the short-term maturity of these instruments.

n. Recent Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The requirements of SFAS No. 150 apply to issuers' classification and measurement of freestanding financial instruments, including those that comprise more than one option or forward contract. SFAS No. 150 does not apply to features that are embedded in a financial instrument that is not a derivative in its entirety. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatory redeemable financial instruments of non-public entities. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of this standard did not have a material effect on the Company's results of operations or financial position.

o. Comparative Figures

Certain of the prior period's figures have been reclassified to conform to the current period's presentation.

3. REFUNDABLE DEPOSITS

Bank deposits were made as securities on four irrevocable standby letters of credit for the same amounts given by the Company's Bank to the Receiver General of Canada on behalf of the Company. The amounts represent the Company's shares of contribution to the successful bids to acquire the various prospects in the Northwest Territories (See Note 5). The deposits will be refundable on the basis of 25% of allowable expenditures.

4. PROPERTY AND EQUIPMENT

	Cost \$	Accumulated Amortization \$	August 31, 2004 Net Carrying Value \$	November 30, 2003 Net Carrying Value \$
Furniture and equipment	28,352	15,811	12,541	6,904

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5. OIL AND GAS PROPERTIES

Interests in unproved oil and gas properties include the following acquisition and deferred exploration costs:

	Acquisition Costs \$	Exploration Costs \$	Costs Written Off \$	August 31, 2004 Total \$	November 30, 2003 Total \$
Canada					
Northwest Territories Prospects (a)	–	1,729,052	–	1,729,052	444,690
Tulita Prospects, Northwest Territories (b)	–	39,050	–	39,050	39,050
Trutch Prospect, British Columbia (c)	385,717	838,383	–	1,224,100	721,593
	385,717	2,606,485	–	2,992,202	1,205,333
				August 31, 2004 \$	November 30, 2003 \$
EXPLORATION COSTS					
Drilling				938,750	698,326
Consulting, geophysical and other professional fees				90,000	–
Seismic				565,523	–
				1,594,273	698,326
DEFERRED EXPLORATION COSTS, BEGINNING OF YEAR				1,180,616	1,203,938
				2,774,889	1,902,264
PROCEEDS FROM DISPOSITION OF INTEREST (a)				(168,404)	–
EXPLORATION COSTS WRITTEN OFF				–	(721,648)
DEFERRED EXPLORATION COSTS, END OF PERIOD				2,606,485	1,180,616

a) Northwest Territories Prospects

EL 397

During the year ended November 30, 2000, the Company, along with its partners, Northrock, EOG, Anadarko and Frontier were successful in bidding for Parcel 1, designated as EL 397, for a work program bid of \$16,580,000 in the Central Mackenzie Valley area of the Northwest Territories. The consortium had committed to spend \$16,580,000 on EL 397 and had posted a gross work deposit of \$4,145,000, which represents 25% of the commitment to future exploration on this block. As at August 31, 2004 the consortium has spent its work commitment and the Company has earned its 6.625% interest in this prospect.

EL 416

A consortium consisting of Northrock, Frontier, EOG, Anadarko and the Company was successful in a bid to acquire the oil and gas exploration rights to Parcel No. 6 ("EL 416") in the Central Mackenzie Valley of the NWT. The consortium's successful bid was for a work commitment of \$1,526,430. The Company has a working interest of 6.625%.

EL 401

In connection with the sale and purchase agreement dated August 28, 2000 relating to the sale of a 2.8393% interest in EL 391 to EOG, the Company was granted an option to participate in an exploration program on Parcel No. 5 ("EL 401"). The Company exercised the option on October 27, 2000. The Company is committed to pay 2.83% of \$12,760,000 to earn a 1.89% interest in EL 401.

EL 423

A consortium consisting of Northrock, Frontier, EOG, Husky and the Company was successful in a bid to acquire the oil and gas exploration rights to Parcel CMV-1 ("EL 423") in the Central Mackenzie Valley of the NWT. The consortium's successful bid was for a work commitment of \$24,800,000. The Company has a working interest of 6.625%.

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b) Tulita Prospects, Northwest Territories

Pursuant to a lease agreement dated July 16, 1998, the Company shall earn a 40% interest in the lease granted by the TDL to Frontier. The lease covers nine individual parcels of land in the Fort Norman area of the Northwest Territories, of which two parcels are within the joint ventures EL 391. The Company was required to pay its 50% share of lease costs estimated to be \$550,000 and a \$1,000,000 seismic program. The properties are subject to a 15% G.O.R. and a 1% G.O.R. to Frontier and to a 5% N.P.I.

Frontier, as agent for and on behalf of the Company entered into a seismic option agreement with Northrock Resources Ltd. As a result, the Company's interest was reduced to 20% for the nine parcels (TDL acreage) upon payment for its 17.5% share of costs amounting to \$271,250.

Further to a letter of agreement between the Company, Northrock, Frontier and Anadarko, Anadarko agreed to participate in two \$1,000,000 seismic programs. Anadarko shall pay the first \$700,000 of the first seismic program. Thereafter, the Company shall pay 13.25% of the costs. The Company shall be reimbursed 32.5% of certain expenditures, which were previously incurred. The working interest of the Company shall be reduced to 13.25%.

Pursuant to the sale and purchase agreement, and the financing and joint venture agreement, both with EOG, the Company's interest in the TDL acreage has been reduced to 6.625%. See also Note 5(a) above.

c) Trutch Prospect, British Columbia

On December 12, 2002, the Company entered into a farm-in and participation agreement with IFP Technologies (Canada) Inc. ("IFP"). IFP is the holder of a 25% working interest in P&NG Leases and Licenses located in the Trutch area in North Eastern British Columbia, Canada. Thunder Energy is the operator. Under the terms of the agreement, the Company has agreed to farm-in in the drilling and completion of a test well to earn an 8% working interest. Total drilling and completion costs for the well were approximately \$6,900,000. As at August 31, 2004 the Company has fulfilled its obligations under the farm-in and now has an 8% working interest in this prospect. The Company has also acquired an 8% working interest in two sets of equalization lands both directly offsetting the test well.

6. COMMON STOCK

a) Share Capital

As at August 31, 2004 the Company had 39,410,438 shares issued and outstanding.

The following table summarizes the continuity of the Company's share capital:

	Number of shares	\$ Amount
Balance, November 30, 2003	24,617,650	\$ 18,107,969
Issued pursuant to private placements	8,507,601	2,623,709
Exercise of Stock Options	1,545,600	244,788
Exercise of Share Purchase Warrants	4,790,681	1,868,857
Expiry of escrow shares	(51,094)	—
Share Issuance costs	—	(211,966)
Balance August 31, 2004	39,410,438	\$22,633,357

b) Escrow Shares

As at August 31, 2004, the Company had no shares subject to escrow agreements.

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6. COMMON STOCK (continued)

c) Share Purchase Warrants

At August 31, 2004 the following share purchase warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
1,032,500	\$0.15	February 21, 2005
95,000	\$0.15	March 6, 2005
199,109	\$0.45	September 22, 2004
225,015	\$0.45	March 22, 2004
<u>1,428,571</u>	\$0.45	April 19, 2006
<u>2,980,195</u>		

The following table summarizes the continuity of the Company's warrants:

	Number of shares	Weighted average exercise price \$
Balance, November 30, 2001	3,580,357	0.30
Issued with private placement	500,000	0.12
Expired	(1,970,000)	0.33
Balance, November 30, 2002	2,110,357	0.23
Issued with private placement	1,545,000	0.15
Exercised	(10,000)	0.12
Expired	(1,610,357)	0.21
Balance, November 30, 2003	2,035,000	0.14
Issued with private placements	5,736,001	0.45
Exercised	(4,790,681)	0.39
Expired	(125)	0.45
Balance, August 31, 2004	2,980,195	0.34

PACIFIC RODERA ENERGY INC.
(formerly Pacific Roderia Ventures Inc.)
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NOTES TO FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED AUGUST 31, 2004

(expressed in Canadian dollars)
(Unaudited – prepared by management)

6. COMMON STOCK (continued)

d) Stock Options

The shareholders approved the Company's stock option plan (the "Plan") and 7,200,000 shares are reserved for issuance under the Plan. The Company's Board of Directors has discretion to set the terms and conditions of options granted under the Plan.

The following table summarizes the continuity of the Company's stock options:

	Number of shares	Weighted average exercise price \$
Outstanding, November 30, 2001	1,056,500	0.28
Granted	704,000	0.11
Exercised	—	
Cancelled/expired	(325,500)	0.47
Outstanding, November 30, 2002	1,435,000	0.16
Granted	751,000	0.12
Exercised	(22,000)	0.12
Cancelled/expired	(51,000)	0.17
Outstanding, November 30, 2003	2,113,000	0.14
Granted	5,746,200	0.73
Exercised	(1,545,600)	0.16
Cancelled/expired	(832,320)	0.64
Outstanding, August 31, 2004	5,481,280	0.69
Exercisable at end of period	1,296,040	0.66

Additional information regarding options outstanding as at August 31, 2004 is as follows:

Exercise prices \$	Outstanding			Exercisable	
	Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of shares	Weighted average exercise price \$
0.12	79,000	0.3	0.12	79,000	0.12
0.12	432,200	3.9	0.12	151,600	0.12
0.24	486,200	4.3	0.24	46,200	0.24
0.74	947,680	4.7	0.74	200,000	0.74
0.82	3,460,000	4.7	0.82	804,000	0.82
0.71	76,200	5.0	0.71	15,240	0.71
	5,481,280	3.8	0.69	1,296,040	0.66

The fair value for options granted was estimated at the date of grant using the Black-Scholes option-pricing model. Under the Black-Scholes option-pricing model, the weighted average fair value of stock options granted during the period was \$0.445. There was no dilutive impact of potential common shares associated with stock options and warrants, by application of the treasury stock method, for the period ended August 31, 2004, as the Company had a net loss.

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6. COMMON STOCK (continued)

e) Deferred Compensation

In connection with the grant of certain stock options to employees during the period ended August 31, 2004, the Company recorded deferred stock compensation of \$2,161,004 representing the difference between the fair value of common stock for accounting purposes and the option exercise price of the respective stock options at the date of grant. The deferred compensation is presented as a reduction of stockholders' equity and amortized over the vesting period of stock options on a straight-line basis. During the period ended August 31, 2004, the Company amortized \$369,068 of deferred compensation that has been recorded as stock-based compensation and charged to operations.

7. RELATED PARTY TRANSACTIONS/BALANCES

The following related party payments were recorded at their exchange amounts:

- a) The Company paid consulting fees of \$36,000 (2003 - \$24,000) to a company controlled by the Chairman, Chief Executive Officer and director of the Company.
- b) The Company paid consulting fees of \$54,000 (2003 - \$Nil) to a company controlled by the former President and director of the Company.
- c) The amount of \$11,000 (2003 - \$53,251) is due from a company owned 50% by the spouse of the former Chief Financial Officer and director of the Company.
- d) Included in accounts payable is \$4,280 (2003 - \$Nil) due to a company controlled by the Chairman, Chief Executive Officer and director of the Company.

The above balances due to/from related parties are non-interest bearing, unsecured and due on demand.

8. CONTINGENT LIABILITY

There is a contingent liability in respect of five irrevocable letters of credit for \$590,092 (2003 - \$179,342), given by the Company's bank to Canada Revenue Agency, on behalf of the Company, for its share of refundable work deposits on various prospects in the Northwest Territories. (See Note 5). The letters of credit are secured by an assignment of cash of equal amounts. The Company is contingently liable under the letters of credit for any portion of the work commitment not fulfilled.

9. COMMITMENTS

The Company continues with a consulting agreement with a company controlled by the Chairman, Chief Executive Officer and director of the Company. The Company is obligated to pay \$4,000 per month until December 31, 2005, at which time this agreement shall automatically renew for further twelve month terms unless either party gives the other party two months notice of non-renewal.

10. SUBSEQUENT EVENTS

On September 27, 2004 the Company announced a non-brokered private placement of 5,500,000 flow-through common shares at a price of \$1.15 per share for gross proceeds of \$6,325,000. A fee and warrants will be paid to arm's length parties in connection with the financing in accordance with applicable securities law and TSX Venture Exchange Policies. The warrants issued in connection with the fee will be non-transferable and will entitle the holder to purchase an additional non-flow through common share at a price of \$1.50 per share until March 31, 2005