

**PACIFIC RODERA ENERGY INC.**  
**(formerly Pacific Roderia Ventures Inc.)**  
(An Exploration Stage Company)  
**PERIOD ENDED AUGUST 31, 2005**

Index

Notice to Reader.....	F-1
Balance Sheets.....	F-2
Statements of Operations and Deficit.....	F-3
Statements of Cash Flows.....	F-4
Notes to the Financial Statements.....	F-5

**PACIFIC RODERA ENERGY INC.**  
**240, 600 – 6<sup>TH</sup> Avenue S.W.**  
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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 Rodera Ventures Inc.)**  
 (An Exploration Stage Company)

**BALANCE SHEETS**

**AS AT AUGUST 31, 2005 AND NOVEMBER 30, 2004**

	August 31, 2005 (unaudited) \$	November 30, 2004 (audited) \$
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	248,797	207,044
Short-term investments	2,233,537	1,710,747
Amounts receivable	5,402	11,570
Prepaid expenses	2,524	4,499
<b>Total Current Assets</b>	<b>2,490,260</b>	<b>1,933,860</b>
Cash Committed For Oil and Gas Exploration	3,227,358	6,820,687
Refundable Deposits (Note 3)	471,715	471,715
Property and Equipment (Note 4)	10,298	12,011
Oil and Gas Properties (Note 5)	6,904,641	3,108,177
<b>Total Assets</b>	<b>13,104,272</b>	<b>12,346,450</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	302,272	135,586
<b>Total Liabilities</b>	<b>302,272</b>	<b>135,586</b>
COMMITMENTS (Notes 5 and 9)		
SUBSEQUENT EVENTS (Note 10)		
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (Note 6)	29,945,560	29,057,157
Contributed Surplus (Note 6(g))	2,267,854	2,108,847
Deferred Compensation (Note 6(f))	(742,440)	(1,730,062)
Deficit	(18,668,974)	(17,225,078)
<b>Total Shareholders' Equity</b>	<b>12,802,000</b>	<b>12,210,864</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>13,104,272</b>	<b>12,346,450</b>

Approved on Behalf of the Board:

/s/ "David J.L. Williams"  
 David J.L. Williams, Director

/s/ "C. Geoffrey Hampson"  
 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**  
(Unaudited – prepared by management)

	Three months ended August 31,		Nine months ended August 31,	
	2005 \$	2004 \$	2005 \$	2004 \$
Revenue	-	-	-	-
<b>Expenses</b>				
Accounting and audit	3,000	4,275	12,991	10,775
Advertising and promotion	1,354	1,371	8,706	2,671
Amortization	542	568	1,713	2,309
Consulting (Note 7)	25,500	30,000	83,495	90,000
Interest and bank charges	1,284	3,295	1,513	3,654
Legal	6,609	6,341	54,416	69,075
Office and administration	8,030	9,802	55,571	29,418
Rent (Note 7)	9,842	10,712	31,870	31,979
Stock-based compensation	386,705	(134,933)	1,280,202	369,068
Transfer agent, regulatory fees and shareholder relations	2,102	11,428	28,641	51,327
Travel and accommodation	4,371	19,208	12,849	26,055
Less: interest income	(36,986)	(13,788)	(128,071)	(17,804)
<b>Total Expenses</b>	<b>412,353</b>	<b>(51,721)</b>	<b>1,443,896</b>	<b>668,527</b>
Net Income (Loss)	(412,353)	51,721	(1,443,896)	(668,527)
Deficit, Beginning of Period	(18,256,621)	(17,046,096)	(17,225,078)	(16,325,848)
Deficit, End of Period	(18,668,974)	(16,994,375)	(18,668,974)	(16,994,375)
Net Loss Per Share – Basic and Diluted	(0.01)	(0.00)	(0.03)	(0.02)
Weighted Average Number of Shares Outstanding	47,505,000	32,725,000	47,072,000	28,938,000

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

**PACIFIC RODERA ENERGY INC.**  
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**STATEMENTS OF CASH FLOWS**

(Unaudited – prepared by management)

	Three months ended		Nine months ended	
	August 31, 2005	2004	August 31, 2005	2004
	\$	\$	\$	\$
<b>Cash Flows To Operating Activities</b>				
Net income (loss)	(412,353)	51,721	(1,443,896)	(668,527)
Adjustments to reconcile net loss to net cash used in operating activities				
Amortization	542	568	1,713	2,309
Amortization of deferred compensation and other stock-based compensation	386,705	(134,933)	1,280,202	369,068
Changes in operating assets and liabilities				
Amounts receivable	1,726	3,649	6,168	24,983
Prepaid expenses	–	(129,600)	1,975	(129,600)
Advances to related parties	–	8,000	–	14,000
Accounts payable and accrued liabilities	1,821	13,396	166,686	1,912
<b>Net Cash Used In Operating Activities</b>	<b>(21,559)</b>	<b>(187,199)</b>	<b>12,848</b>	<b>(385,855)</b>
<b>Cash Flows From Investing Activities</b>				
Short-term investments	(36,448)	(6,938)	(522,790)	(1,006,938)
Refundable deposits	–	(410,750)	–	(410,750)
Acquisition of property and equipment	–	–	–	(7,946)
Acquisition of and expenditures upon oil and gas properties	(573,555)	(671,084)	(3,796,464)	(1,786,869)
Less financed by cash committed for oil and gas exploration	459,895	–	3,593,329	528,237
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>(150,108)</b>	<b>(1,088,772)</b>	<b>(725,925)</b>	<b>(2,684,266)</b>
<b>Cash Flows From Financing Activities</b>				
Proceeds from issuance of shares, net of issuance costs	16,968	187,560	754,830	4,525,388
Less committed for oil and gas exploration	–	191,132	–	(1,057,012)
<b>Net Cash Provided By Financing Activities</b>	<b>16,968</b>	<b>378,692</b>	<b>754,830</b>	<b>3,468,376</b>
<b>Change In Cash</b>	<b>(154,699)</b>	<b>(897,279)</b>	<b>41,753</b>	<b>398,255</b>
<b>Cash, Beginning of Period</b>	<b>403,496</b>	<b>1,326,630</b>	<b>207,044</b>	<b>31,096</b>
<b>Cash, End of Period</b>	<b>248,797</b>	<b>429,351</b>	<b>248,797</b>	<b>429,351</b>
<b>Non-Cash Financing and Investing Activities</b>				
Fair value of stock options granted	–	–	750,000	–
<b>Supplemental Disclosures</b>				
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 THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED AUGUST 31, 2005 AND 2004**

(Unaudited – prepared by management)

1. EXPLORATION STAGE COMPANY

Pacific Rodera Energy Inc. ("the Company") was formed by the amalgamation, in the Province of British Columbia, Canada, of Pacific Royal Ventures Ltd. ("Pacific") and Rodera Diamond Corp. ("Rodera") (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 Rodera were exchanged for common shares of the Company on the basis of 5 Pacific shares for each share of the Company, and 8 Rodera shares for each share of the Company.

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

The Company changed its name from Pacific Rodera Ventures Inc. to Pacific Rodera Energy Inc. on June 21, 2004 and continues to trade on the TSX Venture Exchange under the symbol PRD.

These financial statements have been prepared on the going concern basis, which assumes that the Company will be able to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business, and do not reflect any adjustments that may be necessary if the company is unable to continue as a going concern. The Company has incurred significant losses since inception. The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management is of the opinion that sufficient working capital will be obtained from operations or external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. The Company continues to explore in hopes of finding a proven oil and gas property that can generate future cash flows.

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 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 Presentation

These financial statements are prepared in conformity with Canadian generally accepted accounting principles and are presented in Canadian dollars. The Company has withdrawn its 10SB application with the Securities Exchange Commission and therefore, has presented its financial statements using Canadian GAAP and not US GAAP as it did in the prior year. There would be no material reconciling items other than presentation items.

c) Use of Estimates

The preparation of financial statements in conformity with Canadian 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.

e) Short-term Investments

Short-term investments consist of highly liquid short-term interest bearing securities with a term to maturity of greater than three months on the date of purchase. Short-term investments are recorded at the lower of cost plus accrued interest and market value.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Property and Equipment

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

g) Oil and Gas Properties

The Company uses the full cost method of accounting for oil and gas operations whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized. Costs include lease acquisition costs, geological and geophysical expenses, costs of drilling both successful and unsuccessful wells and overhead charges directly related to exploration activities. Proceeds from the sale of oil and gas properties will be applied against the capitalized costs, with no gain or loss recognized, unless such sale would significantly alter the rate of depletion and depreciation.

Depletion of exploration and development costs and depreciation of production equipment will be provided upon commencement of commercial production using the unit-of-production method based upon estimated proved petroleum and natural gas reserves.

Costs incurred in unproven properties and properties in the development stage are reviewed periodically to ascertain whether impairment has occurred. If impairment occurs, the costs will be written down to an estimated net realizable value.

The carrying value of the Company's petroleum and natural gas properties will be compared annually to an estimate of future net cash flows from the production of proved reserves using year end prices, less estimated future general and administrative expenses, financing costs and income taxes. Should this comparison indicate an excess carrying value, the excess is charged against earnings as additional depletion and depreciation.

h) Long-lived Assets

The Company monitors the recoverability of long-lived assets, based on factors such as current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when it is determined that the carrying amount of the assets may not be recoverable. The impairment loss is calculated as the amount by which the carrying amount of the assets exceeds the undiscounted estimate of future cash flows from the asset.

i) Leases

Leases which transfer substantially all of the benefits and risks of ownership of the underlying assets are accounting for as capital leases. All other leases are accounted for as operating leases.

j) Flow-through Common Shares

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. The estimated tax benefits transferred to shareholders upon renouncement are recorded as an increase to future income taxes and a reduction to share capital.

k) 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.

l) Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under the liability method, future income taxes are recognized to reflect the expected future tax consequences arising from tax loss carryforwards and temporary differences between the carrying value and the tax bases of the Company's assets and liabilities. The amount of future income tax assets is not recognized until realization is more likely than not.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED AUGUST 31, 2005 AND 2004**

(Unaudited – prepared by management)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Stock-Based Compensation

The Company adopted the Canadian Institute of Chartered Accountants Handbook Section 3870, which establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. The standard requires the use of a fair value based method for all stock-based awards made to non-employees, but only requires it for employees when there are direct awards of stock, stock appreciation rights and awards that call for settlement in cash or other assets. No compensation expense is required to be recognized when stock options are granted to employees at the prevailing market price. Pro-forma basic earnings (loss) per share and pro-forma diluted earnings (loss) per share are required to be disclosed as if the fair value method had been used for new awards and for modifications of existing awards. The Company has chosen to continue its policy of not recognizing compensation expense on the grant of stock options to employees. Consideration paid by employees on the exercise of stock options is recorded as share capital.

n) Loss Per Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the year. The treasury stock method is used for the calculation of diluted loss per share. Stock options and warrants are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options and warrants.

As the Company has recorded a loss in each of the periods presented, basic and diluted loss per share are the same since the exercise of warrants or options would reduce the loss per share.

o) Financial Instruments

i) Fair Values

The carrying value of cash, short-term investments, 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.

ii) Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and short-term investments. The Company limits its exposure to credit loss by placing its cash and short-term investments with high quality financial institutions.

iii) Interest Rate Risk

The financial instruments which potentially expose the Company to interest rate risk are the short-term investments. These instruments bear interest at 1%.

p) Comparative Figures

Certain of the prior year's figures have been reclassified to conform to the current year'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 Canada Revenue Agency 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.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED AUGUST 31, 2005 AND 2004**

(Unaudited – prepared by management)

4. PROPERTY AND EQUIPMENT

	Cost \$	Accumulated Amortization \$	August 31, 2005 Net Carrying Value \$	November 30, 2004 Net Carrying Value \$
Furniture and equipment	28,352	18,054	10,298	12,011

5. OIL AND GAS PROPERTIES

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

	Canada					United States		Total \$
	Northwest Territories Prospects (a) \$	Innes Prospect, Sask. (b) \$	Midale Prospect, Sask. (c) \$	Tulita Prospects, NWT (d) \$	Trutch Prospect, BC (e) \$	Alaska Prospect (f) \$	Montana Prospect (g) \$	
August 31, 2005								
Exploration costs, beginning of period	1,844,574	–	–	39,050	838,836	–	–	2,722,460
Exploration costs:								
Drilling	2,524,651	–	–	–	854,137	–	–	3,378,788
Seismic	417,676	–	–	–	–	–	–	417,676
	2,942,327	–	–	–	854,137	–	–	3,796,464
Exploration costs, end of period	4,786,901	–	–	39,050	1,692,973	–	–	6,518,924
Acquisition costs, beginning of period	–	–	–	–	385,717	–	–	385,717
Acquisition during the period	–	–	–	–	–	–	–	–
Acquisition costs, end of period	–	–	–	–	385,717	–	–	385,717
Acquisition and exploration costs, end of period	4,786,901	–	–	39,050	2,078,690	–	–	6,904,641
November 30, 2004								
Exploration costs, beginning of year	444,690	–	–	39,050	696,876	–	–	1,180,616
Exploration costs:								
Drilling	834,361	–	–	–	141,960	–	–	976,321
Seismic	565,523	–	–	–	–	–	–	565,523
	1,399,884	–	–	39,050	141,960	–	–	1,541,844
Exploration costs, end of year	1,844,574	–	–	39,050	838,836	–	–	2,722,460
Acquisition costs, beginning of year	–	–	–	–	24,717	–	–	24,717
Acquisition during the year	–	–	–	–	361,000	–	–	361,000
Acquisition costs, end of year	–	–	–	–	385,717	–	–	385,717
Acquisition and exploration costs, end of year	1,844,574	–	–	39,050	1,224,553	–	–	3,108,177

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**NOTES TO THE FINANCIAL STATEMENTS**  
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5. OIL AND GAS PROPERTIES (continued)

a) Northwest Territories Prospects

EL 391

The Company forfeited its interest in this prospect as it decided not to participate in the lease renewal and to allocate its resources to other prospects. Deferred exploration costs of \$651,667 was written off during fiscal 2003.

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.

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. Pursuant to a Farmout Agreement dated September 11, 2003 with Husky, the Company's working interest has been reduced to 4.66%.

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%.

b) Innes Prospect, Saskatchewan

The Company sold 100% of its interest in the prospect on July 10, 2002. The remaining deferred exploration costs of \$1,483 were written off during fiscal 2003.

c) Midale Prospect, Saskatchewan

The Company evaluated this holding and determined that it should be written off since there are no planned activities in the foreseeable future. Deferred exploration costs of \$25,872 and acquisition costs of \$99,448 for a total of \$125,320 were written off during fiscal 2003.

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5. OIL AND GAS PROPERTIES (continued)

d) 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.

e) 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 November 30, 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.

f) Alaska Prospect

The Company evaluated this holding and determined that it should be written off since there are no planned activities in the foreseeable future. Deferred exploration costs of \$4,780 and acquisition costs of \$100,000 for a total of \$104,780 were written off during fiscal 2003.

g) Montana Prospect

The Company evaluated this holding and determined that it should be written off since there are no planned activities in the foreseeable future. Deferred exploration costs of \$37,846 and acquisition costs of \$72,240 for a total of \$110,087 were written off during fiscal 2003.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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(Unaudited – prepared by management)

6. SHARE CAPITAL

a) Share Capital

Authorized: 100,000,000 shares without par value

The following table summarizes the continuity of the Company's issued and outstanding shares:

	Number of shares	Amount \$
Balance, November 30, 2003	24,617,650	18,107,969
Issued pursuant to private placements	1,428,571	500,000
Issued pursuant to flow-through private placements	11,929,000	8,253,700
Exercise of stock options	1,910,080	537,690
Exercise of share purchase warrants	5,080,147	1,984,866
Expiry of escrow shares	(51,094)	–
Issued as finder's fees	650,030	195,009
Share issuance costs	–	(522,077)
Balance, November 30, 2004	45,564,384	29,057,157
Exercise of stock options	581,400	415,003
Exercise of share purchase warrants	1,428,999	473,400
Balance August 31, 2005	47,574,783	29,945,560

b) Private Placements

- i) On March 22, 2004, the Company completed a private placement of 6,429,000 units at \$0.30 per unit for gross proceeds of \$1,928,700 by way of Short Form Offering Document. Each unit consists of one flow-through share and one-half of a transferable Series A share purchase warrant. Each whole warrant entitles the holder to purchase one non flow-through share at \$0.45 expiring on March 22, 2005. The Company paid a corporate finance fee of 200,000 shares deemed at \$0.30 per share, the same price of the private placement offering. The Company also paid a finder's fees of 450,030 shares deemed at \$0.30 per share and 225,015 warrants having an exercise price of \$0.45 per share expiring on September 22, 2004 in connection with this private placement. In addition, the agent received 642,900 agent's warrants having an exercise price of \$0.45 per share expiring on September 22, 2004.
- ii) On April 19, 2004, the Company completed a private placement of 1,428,571 units at \$0.35 for gross proceeds of \$500,000. Each unit consists of one share and one warrant to purchase an additional share at \$0.45 per share expiring on April 19, 2006.
- iii) On October 19, 2004, the Company completed a private placement of 5,500,000 flow-through shares at \$1.15 per share for gross proceeds of \$6,325,000. The Company paid finder's fees of \$310,110 and 250,000 non-transferable warrants to purchase an additional share at \$1.50 per share expiring on March 31, 2005.

c) Escrow Shares

As at August 31, 2005, the Company had nil (2004 – 277,344) shares subject to escrow agreements.

d) Share Purchase Warrants

As at August 31, 2005 the following share purchase warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
1,183,715	\$0.45	April 19, 2006

**PACIFIC RODERA ENERGY INC.**  
**(formerly Pacific Roderia Ventures Inc.)**  
(An Exploration Stage Company)

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED AUGUST 31, 2005 AND 2004**

(Unaudited – prepared by management)

6. SHARE CAPITAL (continued)

d) Share Purchase Warrants (continued)

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

	Number of shares	Weighted average exercise price \$
Balance, November 30, 2003	2,035,000	0.14
Issued with private placement	5,760,986	0.50
Exercised	(5,080,147)	0.39
Expired	(125)	0.45
Balance, November 30, 2004	2,715,714	0.43
Exercised	(1,428,999)	0.33
Expired	(103,000)	0.75
Balance, August 31, 2005	1,183,715	0.35

e) Stock Options

The Company has a stock option plan whereby the Company may grant share purchase options to its directors, senior officers, employees, and consultants. 7,200,000 shares (representing less than 20% of the Company's issued and outstanding common shares at the date of approval of the plan) are reserved for issuance under the plan. Under the terms of the plan, the exercise price of each option is equal to the market price of the Company's shares at the date of grant. Stock options granted under the plan vest in 20% increments on the grant date and after six months, at the end of every quarter.

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

	Number of shares	Weighted average exercise price \$
Outstanding, November 30, 2003	2,113,000	0.14
Granted	5,746,200	0.74
Exercised	(1,910,080)	0.21
Cancelled/expired	(832,320)	0.64
Outstanding, November 30, 2004	5,116,800	0.71
Granted	2,500,000	1.35
Exercised	(581,400)	0.47
Cancelled/expired	(1,354,000)	0.70
Outstanding, August 31, 2005	5,681,400	1.01
Exercisable at end of period	3,101,240	0.84

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED AUGUST 31, 2005 AND 2004**

(Unaudited – prepared by management)

6. SHARE CAPITAL (continued)

e) Stock Options (continued)

Additional information regarding options outstanding as at August 31, 2005 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 to 0.24	280,600	2.9	0.15	280,600	0.15
0.74 to 0.82	2,900,800	3.8	0.81	2,320,640	0.81
1.35	2,500,000	4.4	1.35	500,000	1.35
	<u>5,681,400</u>	<u>3.7</u>	<u>1.01</u>	<u>3,101,240</u>	<u>0.84</u>

The fair value for options granted was estimated at the date of grant using the Black-Scholes option-pricing model assuming a risk-free interest rate of 3.5%; dividend yield of 0%; a stock price volatility in a range of 20% to 63.5%; and an expected life of the options of 5 years. Under the Black-Scholes option-pricing model, the weighted average fair value of stock options granted during the period was \$1.01. 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, 2005, as the Company had a net loss.

f) Deferred Compensation

In connection with the grant of certain stock options to employees, consultants, officers and directors during the period ended August 31, 2005 to date, the Company recorded deferred stock compensation of \$724,440 (2004 - \$1,743,075) representing the difference between the fair value of common shares 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 shareholders' equity and amortized over the vesting period of stock options on a straight-line basis. During the period ended August 31, 2005, the Company amortized \$1,280,202 (2004 - \$369,068) of deferred compensation that has been recorded as stock-based compensation and charged to operations.

g) Contributed Surplus

The following table summarizes the continuity of the Company's contributed surplus:

	Amount \$
Balance, November 30, 2003	94,130
Grant of stock options	2,456,359
Exercise of stock options	(140,055)
Cancellation of stock options	(301,587)
Balance, November 30, 2004	2,108,847
Grant of stock options	750,000
Exercise of stock options	(133,574)
Cancellation of stock options	(457,419)
<u>Balance, August 31, 2005</u>	<u>2,267,854</u>

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED AUGUST 31, 2005 AND 2004**

(Unaudited – prepared by management)

7. RELATED PARTY TRANSACTIONS

During the periods ended August 31, 2005 and 2004, the Company was involved in the following related party transactions:

- a) The Company paid consulting fees of \$4,000 (2004 - \$36,000) to a company controlled by the former Chairman, Chief Executive Officer and director of the Company.
- b) The Company paid consulting fees of \$nil (2004 - \$54,000) to a company controlled by the former President and director of the Company.
- c) The Company paid consulting fees of \$70,000 (2004 – nil) to a company controlled by the President, Chief Executive Officer and director of the Company.
- d) The Company paid accounting fees of \$9,000 (2004 – nil) to a company controlled by the Secretary of the Company.

The above noted transactions have been in the normal course of operations and, in management's opinion, undertaken with the same terms and conditions as transactions with unrelated parties.

8. CONTINGENT LIABILITY

There is a contingent liability in respect of four irrevocable standby letters of credit for \$471,715 (2004 - \$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

- a) On January 1, 2005, the Company entered into a consulting agreement with a company controlled by the President of the Company. The Company is obligated to pay \$8,500 per month until December 31, 2006. Twelve months' notice is required for termination by the Company without cause.
- b) The Company has an operating lease agreement for the rental of premises. The rental payments are expensed as incurred. The operating lease is for a period of two years commencing on December 1, 2003 and expiring on November 30, 2005. Under the terms of the operating lease, the Company is committed to \$6,968 per annum plus operating expenses and property taxes.