

**PACIFIC RODERA ENERGY INC.
FINANCIAL STATEMENTS
YEARS ENDED NOVEMBER 30, 2005 AND 2004**

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Auditors' Report

To the Board of Directors and Shareholders of
Pacific Rodera Energy Inc.

We have audited the balance sheets of Pacific Rodera Energy Inc. as at November 30, 2005 and 2004 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

/s/ "Manning Elliott LLP"

CHARTERED ACCOUNTANTS

Vancouver, Canada

March 1, 2006

PACIFIC RODERA ENERGY INC.
BALANCE SHEETS
AS AT NOVEMBER 30, 2005 AND 2004

	2005 \$	2004 \$
ASSETS		
Current Assets		
Cash	4,923,755	1,917,791
Cash committed for oil and gas exploration	607,794	6,820,687
Amounts receivable	3,236	11,570
Prepaid expenses and deposits	11,265	4,499
Total Current Assets	5,546,050	8,754,547
Refundable Deposits (Note 3)	471,715	471,715
Property and Equipment (Note 4)	9,784	12,011
Oil and Gas Properties (Note 5)	8,881,564	3,108,177
Total Assets	14,909,113	12,346,450
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	2,535,781	135,586
Due to related parties (Note 7)	7,498	-
Total Liabilities	2,543,279	135,586
SHAREHOLDERS' EQUITY		
Share Capital (Note 6(a))	29,990,560	29,057,157
Contributed Surplus (Note 6(e))	2,865,074	2,108,847
Deferred Compensation (Note 6(d))	-	(1,730,062)
Deficit	(20,489,800)	(17,225,078)
Total Shareholders' Equity	12,365,834	12,210,864
Total Liabilities and Shareholders' Equity	14,909,113	12,346,450

Nature and Continuance of Operations (Note 1)
 Commitments and Contingencies (Notes 5 and 8)
 Subsequent Events (Note 10)

Approved on behalf of the Board:

/s/ "David Williams"
 David Williams, Director

/s/ "Geoffrey Hampson"
 Geoffrey Hampson, Director

PACIFIC RODERA ENERGY INC.
STATEMENTS OF OPERATIONS AND DEFICIT
YEARS ENDED NOVEMBER 30, 2005 AND 2004

	2005 \$	2004 \$
Revenue	—	—
Expenses		
Amortization	2,227	2,838
Consulting fees (Note 7(a) and (b))	108,995	109,507
Impairment loss on oil and gas properties (Note 5)	439,506	—
Interest and bank charges	1,671	17,606
Office, rent and telephone (Note 7(c))	101,748	84,674
Professional fees (Note 7(d))	90,048	124,817
Stock-based compensation (Note 6(d))	2,619,862	469,979
Transfer agent, regulatory fees and shareholder relations	29,617	77,076
Travel and promotion	38,030	35,017
Less: interest income	(166,982)	(25,284)
Total Expenses	3,264,722	899,230
Net Loss for the Year	(3,264,722)	(899,230)
Deficit, Beginning of Year	(17,225,078)	(16,325,848)
Deficit, End of Year	(20,489,800)	(17,225,078)
Net Loss Per Share – Basic and Diluted	(0.07)	(0.03)
Weighted Average Number of Shares Outstanding	47,209,000	34,839,000

PACIFIC RODERA ENERGY INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED NOVEMBER 30, 2005 AND 2004

	2005 \$	2004 \$
Operating Activities		
Net loss for the year	(3,264,722)	(899,230)
Adjustments to reconcile net loss to net cash used in operating activities		
Amortization	2,227	2,838
Amortization of deferred compensation and other stock-based compensation	2,619,862	469,979
Impairment loss on oil and gas properties	439,506	-
Changes in operating assets and liabilities		
Amounts receivable	8,334	19,889
Prepaid expenses and deposits	(6,766)	(1,975)
Advances to related parties	-	25,000
Accounts payable and accrued liabilities	2,400,195	(43,327)
Due to related parties	7,498	-
Net Cash Provided By (Used In) Operating Activities	2,206,134	(426,826)
Investing Activities		
Refundable deposits	-	(292,373)
Acquisition of property and equipment	-	(7,945)
Acquisition of and expenditures upon oil and gas properties	(6,212,893)	(1,902,844)
Net Cash Used In Investing Activities	(6,212,893)	(2,203,162)
Financing Activities		
Proceeds from issuance of shares, net of issuance costs	799,830	10,809,133
Net Cash Provided By Financing Activities	799,830	10,809,133
Change in Cash and Cash Equivalents	(3,206,929)	8,179,145
Cash and Cash Equivalents, Beginning of Year	8,738,478	559,333
Cash and Cash Equivalents, End of Year	5,531,549	8,738,478
Cash and Cash Equivalents consists of:		
Cash	4,923,755	1,917,791
Cash committed for oil and gas exploration	607,794	6,820,687
	5,531,549	8,738,478
Non-cash Investing and Financing Activities		
Issuance of common shares for finders' fees	-	195,009
Supplemental Disclosures		
Interest paid	-	-
Income taxes paid	-	-

PACIFIC RODERA ENERGY INC.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED NOVEMBER 30, 2005 AND 2004

1. NATURE AND CONTINUANCE OF OPERATIONS

Pacific Rodera Energy Inc. ("the Company") was formed by the amalgamation on March 1, 1999, in the Province of British Columbia, Canada, of two predecessor companies. The Company changed its name from Pacific Rodera Ventures Inc. to Pacific Rodera Energy Inc. on June 21, 2004 and trades on the TSX Venture Exchange under the symbol PRD.

The Company has not generated any revenue since its inception and is considered to be a development stage company as defined by CICA Accounting Guideline No. 11. The Company is devoting all of its efforts to raising capital and exploring for oil and gas on its Canadian oil and gas properties.

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. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. As at November 30, 2005, the Company has working capital of \$3,002,771 and has incurred significant losses since inception totalling \$20,489,800. The continuing 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 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) Year End

The Company's year end is November 30.

b) Basis of Presentation

These financial statements are prepared in conformity with Canadian generally accepted accounting principles and are presented in Canadian dollars.

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 requiring the use of management's estimates are the determination of impairment of oil and gas properties and stock-based compensation. 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) Property and Equipment

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

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

PACIFIC RODERA ENERGY INC.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED NOVEMBER 30, 2005 AND 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Oil and Gas Properties

The Company uses the full cost method of accounting for oil and gas properties whereby all costs of exploration for and development of oil and 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 initially capitalized and then reviewed annually to determine whether an 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 oil and 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.

g) Asset Retirement Obligations

Effective December 1, 2004, the Company adopted CICA Handbook Section 3110, "Asset Retirement Obligations", which established standards for asset retirement obligations and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. As at November 30, 2005, the Company has not incurred any asset retirement obligation related to the exploration and development of its oil and gas properties.

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) Flow-through Shares

The Company has adopted EIC-146, which is effective for all flow-through share transactions initiated after March 19, 2004. Canadian tax legislation permits a company to issue securities referred to as flow-through shares whereby the investor may claim the tax deductions arising from the related resource expenditures. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, a future income tax liability is recognized and shareholders' equity is reduced.

If the Company has sufficient unused tax losses to carry forward to offset all or part of this future income tax liability and no future income tax assets have been previously recognized for these losses carried forward a portion of such unrecognized losses is recorded as income up to the amount of the future income tax liability that was previously recognized on the renounced expenditures.

j) 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 losses carried forward 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.

PACIFIC RODERA ENERGY INC.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED NOVEMBER 30, 2005 AND 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Stock-Based Compensation

As of December 1, 2004, the Company applies the fair value method to stock-based payments to all awards that are direct awards of stock, that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. Compensation expense is recognized over the applicable vesting period with a corresponding increase in contributed surplus. When the options are exercised, the exercise price proceeds together with the amount initially recorded in contributed surplus are credited to share capital. Stock options granted to employees prior to December 1, 2004 are accounted for using the intrinsic value method. When these stock options are exercised, the proceeds are recorded as share capital.

l) 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.

m) Financial Instruments

i) Fair Values

The carrying value of cash, cash committed for oil and gas exploration, amounts receivable, refundable deposits, accounts payable and accrued liabilities, and due to related parties 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 cash equivalents. The Company limits its exposure to credit loss by placing its cash and cash equivalents with high quality financial institutions.

n) Reclassifications

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 security on four irrevocable standby letters of credit given by the Company's bank to Canada Revenue Agency on behalf of the Company. The bank deposits represent the Company's share of contributions 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 \$	November 30, 2005 Net Carrying Value \$	November 30, 2004 Net Carrying Value \$
Furniture and equipment	28,352	18,568	9,784	12,011

PACIFIC RODERA ENERGY INC.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED NOVEMBER 30, 2005 AND 2004

5. OIL AND GAS PROPERTIES

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

	Northwest Territories Prospects (a) \$	Tulita Prospects (b) \$	Trutch Prospect (c) \$	Total \$
2005				
Exploration costs, beginning of year	1,844,574	39,050	838,836	2,722,460
Exploration costs:				
Drilling	4,773,576	—	869,935	5,643,511
Seismic	569,382	—	—	569,382
	5,342,958	—	869,935	6,212,893
Impairment loss	(358,431)	—	(81,075)	(439,506)
Exploration costs, end of year	6,829,101	39,050	1,627,696	8,495,847
Acquisition costs, beginning of year	—	—	385,717	385,717
Acquisition costs, during the year	—	—	—	—
Acquisition costs, end of year	—	—	385,717	385,717
Acquisition and exploration costs, end of year	6,829,101	39,050	2,013,413	8,881,564
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	—	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 costs, 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

a) Northwest Territories Prospects

EL 397

In fiscal 2000, the Company, along with its partners were successful in bidding for Parcel No. 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. The Company has a working interest of 6.625%.

EL 416

A consortium of companies including the Company were successful in bidding for Parcel 1, designated EL 397, for a work program bid of \$16,580,000 in the Central Mackenzie Valley area of the Northwest Territories. The consortium successful bid was for a work commitment of \$1,526,430. Pursuant to a Farm-out Agreement dated September 11, 2003, the Company's working interest was reduced to 4.66%. During fiscal 2005, the Company forfeited its interest in this prospect as it decided not to participate in the lease renewal in order to allocate its resources to other prospects. Deferred exploration costs of \$25,625 were written off during fiscal 2005.

PACIFIC RODERA ENERGY INC.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED NOVEMBER 30, 2005 AND 2004

5. OIL AND GAS PROPERTIES (continued)

a) Northwest Territories Prospects (continued)

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 another company, the Company was granted an option to participate in an exploration program on Parcel No. 5 ("EL 401"). The Company exercised this 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. Deferred exploration costs of \$332,806 representing the costs of an abandoned well on the property was written off during fiscal 2005.

EL 423

A consortium of companies including 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) Tulita Prospects, Northwest Territories

Pursuant to a lease agreement dated July 16, 1998, the Company can earn a 40% interest in a lease that covers nine individual parcels of land in the Fort Norman area of the Northwest Territories. 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% Gross Overriding Royalty ("G.O.R."), a 1% G.O.R. to the Lessor and a 5% Net Profits Interest.

The Lessor, as agent for, and on behalf of the Company entered into a seismic option agreement with another company. 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 and its partners, Anadarko agreed to participate in two \$1,000,000 seismic programs. After the first \$700,000 of the first seismic program, the Company will 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 was reduced to 13.25%.

Pursuant to a sale and purchase agreement, and the financing and joint venture agreement, the Company's interest in the TDL acreage was 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 a company. This company is the holder of a 25% working interest in the P&NG Leases and Licenses located in the Trutch area in British Columbia, Canada. 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. In fiscal 2004, the Company fulfilled its obligations under the farm-in agreement and now has an 8% working interest in this prospect. The Company also acquired an 8% working interest in two sets of equalization lands both directly offsetting the test well. Deferred exploration costs of \$81,075 representing the costs of an abandoned well on the property was written off during fiscal 2005.

PACIFIC RODERA ENERGY INC.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED NOVEMBER 30, 2005 AND 2004

6. SHARE CAPITAL

- a) 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 private placements	11,929,000	8,253,700
Exercise of stock options	1,910,080	397,635
Value of stock options exercised transferred from contributed surplus	—	140,055
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	281,430
Value of stock options exercised transferred from contributed surplus	—	133,573
Exercise of share purchase warrants	1,528,999	518,400
Balance November 30, 2005	47,674,783	29,990,560

- 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 consisted 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 valued 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 valued 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 consisted 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) Share Purchase Warrants

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 placements	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	(1,528,999)	0.49
Expired	(103,000)	1.50
Balance, November 30, 2005	1,083,715	0.45

PACIFIC RODERA ENERGY INC.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED NOVEMBER 30, 2005 AND 2004

6. SHARE CAPITAL (continued)

c) Share Purchase Warrants (continued)

As at November 30, 2005 the following share purchase warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
<u>1,083,715</u>	\$0.45	April 19, 2006

d) 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. 9,400,000 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 starting on the grant date and then at six, nine, twelve, and fifteen months after the grant date.

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	3,200,000	1.35
Exercised	(581,400)	0.48
Cancelled/expired	(1,354,000)	0.70
Outstanding, November 30, 2005	6,381,400	1.05

Additional information regarding options outstanding as at November 30, 2005 is as follows:

Exercise prices \$	Number of shares	Outstanding		Exercisable	
		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	3.5	0.81	2,900,800	0.81
1.35	3,200,000	4.3	1.35	1,140,000	1.35
	<u>6,381,400</u>	<u>3.9</u>	<u>1.05</u>	<u>4,321,400</u>	<u>0.91</u>

The fair value for stock options granted was estimated using the Black-Scholes option pricing model assuming no expected dividends and the following weighted average assumptions:

	2005	2004
Interest rate	3.17%	4.00%
Expected life (in years)	2.3	5
Expected volatility	76%	30%

The fair value of vested stock options granted during 2005 of \$1,252,376 was charged to operations. The weighted average grant date fair value of options granted during 2005 was \$0.79 (2004 - \$0.54).

During fiscal 2005, the Company amortized \$1,367,486 (net of \$362,576 for cancelled stock options) of deferred compensation which was the remaining amount of the intrinsic value of stock options granted in fiscal 2004 which vested during the year.

PACIFIC RODERA ENERGY INC.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED NOVEMBER 30, 2005 AND 2004

6. SHARE CAPITAL (continued)

d) Stock Options (continued)

Pro forma information regarding net loss and loss per share had the Company accounted for its employee stock options under the fair value method are as follows:

	2005	2004
	\$	\$
Net loss – as reported	(3,264,722)	(899,230)
Add: Stock-based compensation included in net loss – as reported	2,619,862	469,979
Deduct: Stock-based compensation determined under fair value method	(4,278,291)	(592,297)
Net loss – pro forma	(4,923,151)	(1,021,548)
Net loss per share, basic and diluted – as reported	(0.07)	(0.03)
Net loss per share, basic and diluted – pro forma	(0.10)	(0.03)

e) 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 transferred to share capital	(140,055)
Cancellation of stock options	(301,587)
Balance, November 30, 2004	2,108,847
Grant of stock options	1,252,376
Exercise of stock options transferred to share capital	(133,573)
Cancellation of stock options	(362,576)
Balance, November 30, 2005	2,865,074

7. RELATED PARTY TRANSACTIONS/BALANCES

During the years ended November 30, 2005 and 2004, the Company was involved in the following related party transactions:

- a) The Company paid consulting fees of \$4,000 (2004 - \$48,000) 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 rent and administration fees of \$Nil (2004 - \$54,000) to a company owned 50% by spouse of the former Chief Financial Officer and director of the Company.
- d) The Company paid consulting fees of \$95,500 (2004 - \$Nil) to a company controlled by the President, Chief Executive Officer and director of the Company.
- e) The Company paid accounting fees of \$12,000 (2004 - \$Nil) to a company controlled by the Secretary of the Company.
- f) The amount of \$7,498 (2004 - \$Nil) is due to a company owned 50% by the spouse of the President, Chief Executive Officer and director of the Company. The amount owing is for the reimbursement of travel expenses incurred on behalf of the Company and is non-interest bearing, unsecured and due on demand.

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.

PACIFIC RODERA ENERGY INC.
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8. COMMITMENTS AND CONTINGENCIES

- a) There is a contingent liability in respect of four irrevocable standby letters of credit for \$471,715 (2004 - \$471,715), 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.
- b) On January 1, 2005, the Company entered into a consulting services agreement with a company controlled by the President, Chief Executive Officer and director 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.

9. INCOME TAXES

The future income tax assets and liabilities are calculated at the substantively enacted tax rate of 36%. The tax effect of the significant temporary differences which comprise future tax assets and liabilities are as follows:

	2005 \$	2004 \$
Future income tax assets:		
Non-capital loss carryforwards	693,000	982,000
Resource pools	614,000	990,000
	<u>1,307,000</u>	<u>1,972,000</u>
Valuation allowance	(1,307,000)	(1,972,000)
Net future income tax asset	<u>—</u>	<u>—</u>

At November 30, 2005, the Company has non-capital losses carried forward of approximately \$1,925,000, which are available to offset taxable income earned in Canada. These non-capital loss carryforwards expire as follows:

	\$
2006	264,000
2007	355,000
2008	378,000
2009	315,000
2010	199,000
2014	414,000
	<u>1,925,000</u>

The Company also has resource tax pools with the following amounts that are deductible against future years' taxable income at the following rates:

	\$	Rates
Canadian exploration expenses	Nil	100%
Canadian development expenses	291,000	30%
Canadian oil and gas property expenses	969,000	10%
Foreign exploration and development expenses	446,000	10%

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

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10. SUBSEQUENT EVENTS

- a) On December 1, 2005, the Company renewed its operating lease agreement for its office premises. The lease is for a period of one year commencing on December 1, 2005 and expiring on November 30, 2006. Under the terms of the lease, the Company is committed to \$13,065 per annum plus operating expenses and property taxes.
- b) On December 7, 2005, the Company granted 500,000 stock options exercisable at a price of \$1.35 per share for a period of five years to various directors, officers, employees and consultants.
- c) On January 23, 2006, the Company granted 250,000 stock options exercisable at a price of \$1.35 per share for a period of five years to a consultant.
- d) Subsequent to year end, the Company issued 444,286 shares for proceeds of \$186,429 pursuant to share purchase warrants exercised.