

**PACIFIC RODERA ENERGY INC.
FINANCIAL STATEMENTS
PERIOD ENDED MAY 31, 2006**

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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.
BALANCE SHEETS
AS AT MAY 31, 2006 AND NOVEMBER 30, 2005

	May 31, 2006 (unaudited) \$	November 30, 2005 (audited) \$
ASSETS		
Current Assets		
Cash	1,455,342	4,923,755
Cash committed for oil and gas exploration	–	607,794
Amounts receivable	8,569	3,236
Prepaid expenses and deposits	18,765	11,265
Total Current Assets	1,482,676	5,546,050
Refundable Deposits (Note 3)	799,840	471,715
Property and Equipment (Note 4)	9,812	9,784
Oil and Gas Properties (Note 5)	11,615,754	8,881,564
Total Assets	13,908,082	14,909,113
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	1,226,612	2,535,781
Due to related parties (Note 7)	–	7,498
Total Liabilities	1,226,612	2,543,279
SHAREHOLDERS' EQUITY		
Share Capital (Note 6(a))	30,486,104	29,990,560
Contributed Surplus (Note 6(e))	3,962,867	2,865,074
Deficit	(21,767,501)	(20,489,800)
Total Shareholders' Equity	12,681,470	12,365,834
Total Liabilities and Shareholders' Equity	13,908,082	14,909,113

Approved on behalf of the Board:

/s/ "David J.L. Williams"

David Williams, Director

/s/ "C. Geoffrey Hampson"

Geoffrey Hampson, Director

PACIFIC RODERA ENERGY INC.
STATEMENTS OF OPERATIONS AND DEFICIT
SIX MONTHS ENDED MAY 31, 2006 AND 2005
(Unaudited – prepared by management)

	Three months ended May 31,		Six months ended May 31,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Revenue				
Petroleum and natural gas sales	42,830	–	42,830	–
Less: royalties	(7,232)	–	(7,232)	–
	<u>35,598</u>	<u>–</u>	<u>35,598</u>	<u>–</u>
Expenses				
Field operating costs	9,123	–	9,123	–
Amortization	581	570	1,192	1,171
Consulting fees (Note 7(a) and (b))	30,500	28,995	56,000	57,995
Interest and bank charges	80,948	110	81,011	229
Office, rent and telephone (Note 7(c))	32,449	41,579	62,132	69,569
Professional fees (Note 7(d))	8,537	40,763	17,300	57,798
Stock-based compensation (Note 6(d))	609,705	386,705	1,097,793	893,497
Transfer agent, regulatory fees and shareholder relations	5,318	16,520	16,735	26,539
Travel and promotion	5,876	9,078	14,018	15,830
Less: interest income	(13,727)	(51,633)	(42,005)	(91,085)
Total Expenses	<u>769,310</u>	<u>472,687</u>	<u>1,313,299</u>	<u>1,031,543</u>
Net Loss for the Period	<u>(733,712)</u>	<u>(472,687)</u>	<u>(1,277,701)</u>	<u>(1,031,543)</u>
Deficit, Beginning of Period	<u>(21,033,789)</u>	<u>(17,783,934)</u>	<u>(20,489,800)</u>	<u>(17,225,078)</u>
Deficit, End of Period	<u>(21,767,501)</u>	<u>(18,256,621)</u>	<u>(21,767,501)</u>	<u>(18,256,621)</u>
Net Loss Per Share – Basic and Diluted	<u>(0.02)</u>	<u>(0.01)</u>	<u>(0.03)</u>	<u>(0.02)</u>
Weighted Average Number of Shares Outstanding	<u>48,464,554</u>	<u>47,493,383</u>	<u>48,139,706</u>	<u>46,853,257</u>

PACIFIC RODERA ENERGY INC.
STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED MAY 31, 2006 AND 2005
(Unaudited – prepared by management)

	Three months ended		Six months ended	
	May 31,		May 31,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Operating Activities				
Net loss for the period	(733,712)	(472,687)	(1,277,701)	(1,031,543)
Adjustments to reconcile net loss to net cash used in operating activities				
Amortization	581	570	1,192	1,171
Amortization of deferred compensation and other stock-based compensation	609,705	386,705	1,097,793	893,497
Changes in operating assets and liabilities				
Amounts receivable	(3,607)	(1,040)	(5,333)	4,442
Prepaid expenses and deposits	(17,500)	8,500	(7,500)	1,975
Accounts payable and accrued liabilities	(380,017)	53,359	(1,309,169)	164,865
Due to related parties	(4,766)	–	(7,498)	–
Net Cash Provided By (Used In) Operating Activities	(529,316)	(24,593)	(1,508,216)	34,407
Investing Activities				
Refundable deposits	(328,125)	–	(328,125)	–
Acquisition of property and equipment	–	–	(1,220)	–
Acquisition of and expenditures upon oil and gas properties	(2,566,265)	(1,105,108)	(2,734,190)	(3,222,909)
Net Cash Provided Used In Investing Activities	(2,894,390)	(1,105,108)	(3,063,535)	(3,222,909)
Financing Activities				
Proceeds from issuance of shares, net of issuance costs	309,116	287,786	495,544	737,862
Net Cash Provided By Financing Activities	309,116	287,786	495,544	737,862
Change In Cash and Cash Equivalents	(3,114,590)	(841,915)	(4,076,207)	(2,450,640)
Cash and Cash Equivalents, Beginning of Period	4,569,932	7,129,753	5,531,549	8,738,478
Cash and Cash Equivalents, End of Period	1,455,342	6,287,838	1,455,342	6,287,838
Cash and Cash Equivalents consists of:				
Cash	1,455,342	2,600,585	1,455,342	2,600,585
Cash committed for oil and gas exploration	–	3,687,253	–	3,687,253
	1,455,342	6,287,838	1,455,342	6,287,838
Supplemental Disclosures				
Interest paid	–	–	–	–
Income taxes paid	–	–	–	–

PACIFIC RODERA ENERGY INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED MAY 31, 2006 AND 2005

1. NATURE AND CONTINUANCE OF OPERATIONS

Pacific Roder 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 Roder Ventures Inc. to Pacific Roder 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 May 31, 2006, the Company has working capital of \$256,064 and has incurred significant losses since inception totalling \$21,767,501. 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) 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.

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
FOR THE SIX MONTHS ENDED MAY 31, 2006 AND 2005

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 May 31, 2006, 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
FOR THE SIX MONTHS ENDED MAY 31, 2006 AND 2005

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 period's figures have been reclassified to conform to the current period'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	May 31, 2006 Net Carrying Value	November 30, 2005 Net Carrying Value
	\$	\$	\$	\$
Furniture and equipment	29,572	19,760	9,812	9,784

PACIFIC RODERA ENERGY INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED MAY 31, 2006 AND 2005

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 \$
May 31, 2006				
Exploration costs, beginning of period	6,829,101	39,050	1,627,696	8,495,847
Exploration costs:				
Drilling	(747,024)	2,424,610	1,044,237	2,721,823
Seismic	12,367	—	—	12,367
Exploration costs, end of period	6,094,444	2,463,660	2,671,933	11,230,037
Acquisition costs, beginning of period	—	—	385,717	385,717
Acquisition costs, during the period	—	—	—	—
Acquisition costs, end of period	—	—	385,717	385,717
Acquisition and exploration costs, end of period	6,094,444	2,463,660	3,057,650	11,615,754
November 30, 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

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%.

PACIFIC RODERA ENERGY INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED MAY 31, 2006 AND 2005

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%.

EL 441

A consortium of companies including the Company was successful in a bid to acquire the oil and gas exploration rights to Parcel CMV-6 ("EL 441") in the Central Mackenzie Valley of the NWT. The consortium's successful bid was for a work commitment of \$10,500,000. The Company has a working interest of 12.5%.

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%. Pursuant to a right of first refusal the Company increased its interest on parcel M-38 in the TDL acreage to 12.5%. 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.

PACIFIC RODERA ENERGY INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED MAY 31, 2006 AND 2005

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, 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
Exercise of share purchase warrants	1,149,315	495,544
Balance May 31, 2006	48,824,098	30,486,104

- 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, 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
Exercised	(1,083,715)	0.45
Balance, May 31, 2006	–	–

PACIFIC RODERA ENERGY INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED MAY 31, 2006 AND 2005

6. SHARE CAPITAL (continued)

c) Share Purchase Warrants (continued)

As at May 31, 2006 the Company had no outstanding share purchase warrants.

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, 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
Granted	750,000	1.35
Exercised	(65,600)	0.12
Outstanding, May 31, 2006	7,065,800	1.09

Additional information regarding options outstanding as at May 31, 2006 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	215,000	2.3	0.17	215,000	0.17
0.74 to 0.82	2,900,800	2.9	0.81	2,900,800	0.81
1.35	3,950,000	4.0	1.35	1,790,000	1.35
	7,065,800	3.0	1.09	4,905,800	0.98

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:

	2006	2005
Interest rate	3.87%	3.17%
Expected life (in years)	2.3	2.3
Expected volatility	80%	76%

The fair value of vested stock options granted during the period of \$1,097,793 was charged to operations. The weighted average grant date fair value of options granted during the period was \$1.35 (2005 - \$1.01).

PACIFIC RODERA ENERGY INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED MAY 31, 2006 AND 2005

6. SHARE CAPITAL (continued)

e) Contributed Surplus

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

	Amount \$
Balance, November 30, 2004	2,108,846
Grant of stock options	1,252,377
Exercise of stock options transferred to share capital	(133,573)
Cancellation of stock options	(362,576)
Balance, November 30, 2005	2,865,074
Grant of stock options	1,097,793
<u>Balance, May 31, 2006</u>	<u>3,962,867</u>

7. RELATED PARTY TRANSACTIONS/BALANCES

During the periods ended May 31, 2006 and 2005, the Company was involved in the following related party transactions:

- a) The Company paid consulting fees of \$Nil (2005 - \$4,000) to a company controlled by the former Chairman, Chief Executive Officer and director of the Company.
- b) The Company paid consulting fees of \$51,000 (2005 - \$44,500) to a company controlled by the President, Chief Executive Officer and director of the Company.
- c) The Company paid accounting fees of \$6,000 (2005 - \$6,000) 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. COMMITMENTS AND CONTINGENCIES

- a) There is a contingent liability in respect of four irrevocable standby letters of credit for \$799,840 (2005 - \$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.
- c) 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.

9. SUBSEQUENT EVENTS

- a) Subsequent to quarter end, the Company held its Annual General Meeting ("AGM") at which time it was consented to continue the Company in the province of Alberta.