Financial Statements

Pacific Rodera Energy Inc.

(A Development Stage Company)

May 31, 2007 and 2006

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.
(A Development Stage Company)

BALANCE SHEETS

	May 31, 2007 $	November 30, 2006 $
	Unaudited	Audited
ASSETS		
Current		
Cash and cash equivalents	**23,706,797**	874,508
Cash committed for oil and gas exploration	**2,669,138**	—
Amounts and interest receivable	**142,346**	36,651
Prepaid expenses and deposits	**49,233**	23,248
Deferred financing costs	**—**	57,500
Total current assets	**26,567,514**	991,907
Refundable deposits *[notes 3 and 9a]*	**738,875**	800,125
Equipment *[note 4]*	**12,933**	10,251
Oil and gas properties *[note 5]*	**13,660,514**	12,447,464
Total assets	**40,979,836**	14,249,747
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**1,101,704**	3,844,400
Due to related parties *[note 8]*	**46,168**	—
Total current liabilities	**1,147,872**	3,844,400
Asset retirement obligation *[note 6]*	**21,303**	24,011
Future income taxes *[note 10]*	**794,603**	913,242
Total liabilities	**1,963,778**	4,781,653
Commitments and contingencies *[notes 6 and 9]*		
Subsequent events *[note 11]*		
Shareholders' equity		
Share capital *[note 7]*	**57,727,308**	28,153,471
Contributed surplus *[note 7]*	**4,598,364**	4,500,640
Deficit	**(23,309,614)**	(23,186,017)
Total shareholders' equity	**39,016,058**	9,468,094
Total liabilities and shareholders' equity	**40,979,836**	14,249,747

See accompanying notes

On behalf of the Board:

"Michael G. Greenwood"	*"David J.L. Williams"*
Director	Director

Pacific Rodera Energy Inc.
(A Development Stage Company)
Unaudited – prepared by management

STATEMENTS OF OPERATIONS AND DEFICIT

	Three months Ended May 31, 2007 $	Three months Ended May 31, 2006 $	Six months Ended May 31, 2007 $	Six months Ended May 31, 2006 $
REVENUE				
Petroleum and natural gas sales	**381,624**	42,830	**722,748**	42,830
Less: royalties	**57,555**	7,232	**113,335**	7,232
	324,069	35,598	**609,413**	35,598
EXPENSES				
Accretion	**628**	—	**1,009**	—
Amortization and depletion	**187,052**	581	**318,786**	1,192
Consulting fees *[note 8]*	**31,500**	30,500	**57,842**	56,000
Field operating costs	**83,450**	9,123	**219,614**	9,123
Interest and bank charges	**480**	80,948	**551**	81,011
Office, rent and telephone *[note 8]*	**35,731**	32,449	**72,064**	62,132
Professional fees *[note 8]*	**66,414**	8,537	**104,596**	17,300
Stock-based compensation	**48,862**	609,705	**97,724**	1,097,793
Transfer agent, regulatory fees and shareholder relations	**38,838**	5,318	**66,792**	16,735
Travel and promotion	**46,351**	5,876	**60,641**	14,018
Write off of capital assests	**572**	—	**572**	—
Less: interest income	**(257,153)**	(13,727)	**(265,275)**	(42,005)
	282,725	769,310	**734,916**	1,313,299
Income (Loss) for the period before income taxes	**41,344**	(733,712)	**(125,503)**	(1,277,701)
Future income tax recovery	**(57,869)**	—	**1,906**	—
Net loss for the period	**(16,525)**	(733,712)	**(123,597)**	(1,277,701)
Deficit, beginning of period	**(23,293,089)**	(21,033,789)	**(23,186,017)**	(20,489,800)
Deficit, end of period	**(23,309,614)**	(21,767,501)	**(23,309,614)**	(21,767,501)
Net loss per share - basic and diluted	**(0.00)**	(0.02)	**(0.00)**	(0.03)
Weighted average number of shares outstanding	**104,448,391**	48,464,554	**82,096,808**	48,139,706

See accompanying notes

Pacific Rodera Energy Inc.
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Unaudited – prepared by management

STATEMENTS OF CASH FLOWS

	Three months ended May 31, 2007 $	Three months ended May 31, 2006 $	Six months ended May 31, 2007 $	Six months ended May 31, 2006 $
OPERATING ACTIVITIES				
Net loss	**(16,525)**	(733,712)	**(123,597)**	(1,277,701)
Adjustments to reconcile net loss to net cash used in operating activities				
Accretion	**628**	—	**1,009**	—
Amortization and depletion	**187,052**	581	**318,786**	1,192
Write down of capital asset	**572**	—	**572**	—
Stock-based compensation	**48,862**	609,705	**97,724**	1,097,793
Future income tax recovery	**57,869**	—	**(1,906)**	—
Changes in operating assets and liabilities				
Amounts and interest receivable	**(26,713)**	(3,607)	**(105,695)**	(5,333)
Prepaid expenses and deposits	**(32,784)**	(17,500)	**(25,985)**	(7,500)
Accounts payable and accrued liabilities	**(2,087,722)**	(380,017)	**(2,742,696)**	(1,309,169)
Due to related parties	**37,725**	(4,766)	**46,168**	(7,498)
Net cash provided by operating activities	**(1,831,036)**	(529,316)	**(2,535,620)**	(1,508,216)
INVESTING ACTIVITIES				
Refundable deposits	—	(328,125)	**61,250**	(328,125)
Acquisition of equipment	**(1,200)**	—	**(4,852)**	(1,220)
Acquisition of and expenditures upon oil and gas properties	**(681,921)**	(2,566,265)	**(1,530,238)**	(2,734,190)
Asset retirement obligation	**(3,717)**	—	**(3,717)**	—
Net cash used in investing activities	**(686,838)**	(2,894,390)	**(1,477,557)**	(3,063,535)
FINANCING ACTIVITIES				
Proceeds from issuance of shares, net of issuance costs	**25,822,962**	309,116	**29,457,104**	495,544
Deferred financing costs	—	—	**57,500**	—
Net cash provided by financing activities	**25,822,962**	309,116	**29,514,604**	495,544
Increase (Decrease) in cash and cash equivalents	**23,305,088**	(3,114,590)	**25,501,427**	(4,076,207)
Cash and cash equivalents, beginning of period	**3,070,847**	4,569,932	**874,508**	5,531,549
Cash and cash equivalents, end of period	**26,375,935**	1,455,342	**26,375,935**	1,455,342
Cash and cash equivalents consist of:				
Cash	**23,706,797**	1,455,342	**23,706,797**	1,455,342
Cash committed for oil and gas exploration	**2,669,138**	—	**2,669,138**	—
	26,375,935	1,455,342	**26,375,935**	1,455,342
Non-cash investing and financing activities				
Issuance of common shares for finders' fees	**109,896**	—	**109,896**	—
Supplemental disclosures				
Interest paid	—	—	—	—
Income taxes paid	—	—	—	—

See accompanying notes

Pacific Rodera Energy Inc.
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NOTES TO FINANCIAL STATEMENTS

Six months ended May 31, 2007

1. BASIS OF PRESENTATION

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 just begun to generate significant 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.

2. SIGNIFICANT ACCOUNTING POLICIES

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.

Basis of presentation

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

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 estimates are the determination of impairment of oil and gas properties, stock-based compensation, future income tax valuation allowances and asset retirement obligation. Actual results could differ from those estimates.

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.

NOTES TO FINANCIAL STATEMENTS

Six months ended May 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Equipment

Long-lived assets and equipment are 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.

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 per cost centre. 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 is provided upon commencement of commercial production using the unit-of-production method based upon estimated gross proved petroleum and natural gas reserves. Petroleum and natural gas reserves are converted to a common unit of measure on an energy equivalent basis of six mcf of gas to one barrel of oil.

Costs incurred in unproven properties and properties in the development stage are initially capitalized and then reviewed annually to determine whether an impairment has occurred. If impairment occurs, the costs are written down to estimated net realizable value.

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.

NOTES TO FINANCIAL STATEMENTS

Six months ended May 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Ceiling test

The Company conducts a ceiling test at each balance sheet date whereby the carrying amount of capitalized costs is compared to the estimated undiscounted future cash flows. If the sum of the anticipated undiscounted cash flows from proved reserves, based on expected future escalating product prices and costs, exceed the carrying value of the assets the costs are considered recoverable. If the carrying value is not considered recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from production of the proved and probable reserves.

Revenue recognition

Oil and natural gas sales are recognized when commodities are sold to an external party and title passes to the customer.

Measurement of uncertainty

The amount recorded for depletion of oil and natural gas properties, the provision for asset retirement obligations and the related accretion and the ceiling test calculation are based on estimates of proved and probable reserves, production rates, oil and natural gas prices, future costs and other assumptions. Accrual for revenues and costs are prepared based on estimates when actual amounts are not yet known. Stock-based compensation amounts are determined using certain assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Joint 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 interest in such activities.

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 loss carryforwards to offset all or part of this future income tax liability and no future income tax assets have been previously recognized for these tax

NOTES TO FINANCIAL STATEMENTS

loss carry forwards 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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Income taxes

The Company utilizes the 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.

Leases

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

Stock-based compensation

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.

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.

Financial instruments

i] Fair values

The carrying value of cash and cash equivalents, cash committed for oil and gas exploration, amounts and interest receivable, prepaid expenses and deposits, deferred financing costs, accounts payable and accrued liabilities, and due to related parties approximate fair market value because of the short-term maturity of these instruments.

NOTES TO FINANCIAL STATEMENTS

Six months ended May 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

ii] Credit risk

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

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 securities on five 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 shares of contribution to the successful bids to acquire the various prospects in the Northwest Territories [see note 5]. The deposits will be refundable on the basis of 25% of allowable expenditures.

4. EQUIPMENT

	Cost $	Accumulated amortization $	Net book value $
May 31, 2007			
Equipment	**34,495**	**21,562**	**12,933**
November 30, 2006			
Equipment	**31,383**	**21,132**	**10,251**

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NOTES TO FINANCIAL STATEMENTS

Six months ended May 31, 2007

5. OIL AND GAS PROPERTIES

Interests in Canadian oil and gas proven and unproven properties include the following acquisition and exploration and development costs:

	Northwest Territories Prospects [a] $	Tulita Prospects [b] $	Trutch Prospect [c] $	Total $
May 31, 2007				
Exploration and development costs, beginning of year	6,817,268	3,739,158	1,713,282	12,269,708
Exploration and development cost, during the period	50,758	96,182	1,383,298	1,530,238
Impairment loss	—	—	—	—
Exploration and development, end of period	6,868,026	3,835,340	3,096,580	13,799,946
Acquisition costs, beginning of year	—	—	385,717	385,717
Acquisition costs, during the period	—	—	—	—
Acquisition costs, end of period	—	—	385,717	385,717
	6,868,026	3,835,340	3,482,297	14,185,663
Accumulated depletion, beginning of year	—	—	(207,961)	(207,961)
Accumulated depletion, during the period	—	—	(317,188)	(317,188)
Accumulated depletion, end of period	—	—	(525,149)	(525,149)
Net carrying value	6,868,026	3,835,340	2,957,148	13,660,514
November 30, 2006				
Exploration and development costs, beginning of year	5,423,559	1,414,050	1,658,238	8,495,847
Exploration and development costs, during the year	1,393,709	2,325,108	2,167,153	5,885,970
Impairment loss	—	—	(2,112,109)	(2,112,109)
Exploration and development , end of year	6,817,268	3,739,158	1,713,282	12,269,708
Acquisition costs, beginning of year	—	—	385,717	385,717
Acquisition costs, during the year	—	—	—	—
Acquisition costs, end of year	—	—	385,717	385,717
	6,817,268	3,739,158	2,098,999	12,655,425
Less: accumulated depletion	—	—	(207,961)	(207,961)
Net carrying value	6,817,268	3,739,158	1,891,038	12,447,464

In determining the Company's depletion at May 31, 2007 $10,840,428 (November 30, 2006 - $10,556,426) of unproven properties were excluded from the depletion calculation. Future development costs required to complete wells for which proved reserves of $120,000 at May 31, 2007 (November 30, 2006 - $331,000) have been assigned were added to the Company's net book value in the depletion calculation.

NOTES TO FINANCIAL STATEMENTS

Six months ended May 31, 2007

5. OIL AND GAS PROPERTIES (cont'd.)

The following table outlines prices used in the impairment test at November 30, 2006:

	Total Oil Equiv. Production $/boe	**Gas ($Mcf)**
2006	34.66	5.35
2007	46.39	7.56
2008	48.95	8.11
2009	48.22	8.06
2010	45.57	7.62
2011	44.45	7.39
2012	45.44	7.56
2013	46.43	7.72
2014	47.42	7.89
2015	48.69	8.11
2016	49.99	8.33
2017	50.97	8.49

a] Northwest Territories Prospects

EL 397

In fiscal 2000, the Company, along with its partners, 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 has committed to spend $16,580,000 on EL 397 and has 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 6, designated EL 416, 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 Farmout Agreement dated September 11, 2003, the Company's working interest was reduced to 4.66%. During November 30, 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 and has written off $25,625 in deferred exploration costs.

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, designated 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. During November 30, 2005, deferred exploration costs of $332,806 representing the costs of an abandoned well on the property.

5. OIL AND GAS PROPERTIES (cont'd.)

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, designated 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, designated 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 the sale and purchase agreement, and the financing and joint venture agreement, the Company's interest in the TDL acreage has been reduced to 6.625%.

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 and now has

NOTES TO FINANCIAL STATEMENTS

Six months ended May 31, 2007

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. During the year ended November 30, 2005, deferred exploration costs of $81,075 representing the costs of an abandoned well on

5. OIL AND GAS PROPERTIES (cont'd.)

the property were written off. During the year ended November 30, 2006, $2,112,109 was recorded as an impairment loss on the property.

6. ASSET RETIREMENT OBLIGATION

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties:

	May 31, 2007	**November 30, 2006**
	$	$
Asset retirement obligation, beginning of period	**24,011**	—
Liabilities incurred	**(3,717)**	23,042
Accretion expense	**1,009**	969
Asset retirement obligation, end of period	**21,303**	24,011

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at $59,921 [November 30, 2006 - $36,244]. The obligation was calculated using a credit - adjusted risk free discount rate of 10% and an inflation rate of 2%. It is expected that this obligation will be funded from general Company resources at the time the costs are incurred with the majority of costs expected to occur between 2017 and 2018.

7. SHARE CAPITAL

a] Authorized, issued and outstanding

200,000,000 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, 2005	47,674,783	28,002,434
Exercise of stock options	199,400	23,928
Value of stock options exercised from contributed surplus	—	13,958
Exercise of share purchase warrants	1,083,715	487,672
Less: tax benefit renounced to subscribers	—	(374,521)
Balance November 30, 2006	48,957,898	28,153,471
Issued for cash	56,600,000	30,712,000

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Issued for finders' fees	183,160	109,896
Share issuance costs, net of future income tax ($436,733)	—	(928,059)
Less: tax benefit renounced to subscribers	—	(320,000)
Balance May 31, 2007	105,741,058	57,727,308

NOTES TO FINANCIAL STATEMENTS

Six months ended May 31, 2007

7. SHARE CAPITAL (cont'd.)

b] Private Placements

i) On December 1, 2006, the Company completed a non-brokered private placement of 7,700,000 flow-through units and 131,250 non flow-through units at a price of $0.32 per unit for gross proceeds of $2,506,000. Each unit consisted of one common share and one-half of one non-transferable share purchase warrant. Each whole warrant entitles the holder upon exercise to purchase an additional non flow-through common share at $0.40 on or before December 1, 2008.

ii) On December 5, 2006, the Company completed a non-brokered private placement of 468,750 non flow-through units at a price of $0.32 per unit for gross proceeds of $150,000. Each unit consisted of one common share and one-half of one non-transferable share purchase warrant. Each whole warrant entitles the holder upon exercise, to purchase an additional non flow-through common share at $0.40 on or before December 5, 2008.

iii) On January 4, 2007, the Company completed a non-brokered private placement of 3,300,000 flow-through units at a price of $0.32 per unit for gross proceeds of $1,056,000. Each unit consisted of one common share and one-half of one non-transferable share purchase warrant. Each whole warrant entitles the holder upon exercise, to purchase an additional non flow-through common share at $0.40 on or before January 4, 2009.

iv) On March 2, 2007, the Company completed the private placement sale of 42,620,082 units at a price of $0.60 per unit for gross proceeds of $25,572,049. The Company paid an agency fee of $1,068,816 and 183,160 common shares. Each unit consisted of one common share and one half of one non-transferable common share purchase warrant. Each whole warrant entitles the holder upon exercise, to purchase an additional common share at a price of $0.70 per share. The Warrants expire on March 2, 2009 unless (i) during the period commencing on the date that is four months following the closing date and ending on the second anniversary of the closing date, the daily volume weighted average trading price of the share on the TSX Venture Exchange exceeds $1.00 for each a day of a period of 20 consecutive trading days, and (ii) the Company gives the holders of the warrants written notice of such occurrence within 30 days of such occurrence, in which case the warrants will expire on the 30th day following the giving of such notice.

v) On March 14, 2007, the Company completed the private placement sale of 2,379,918 units at a price of $0.60 per unit for gross proceeds of $1,427,951. The Company paid an agency fee of $62,543. Each unit consisted of one common share and one half of one non-transferable common share purchase warrant. Each whole warrant entitles the holder upon exercise, to purchase an additional common share at a price of $0.70 per share. The Warrants expire on March 14, 2009 unless (i) during the period commencing on the date that is four months following the closing date and ending on the second anniversary of the closing date, the daily volume weighted average trading price of the share on the TSX Venture Exchange exceeds $1.00 for each a day of a period of 20 consecutive trading days, and (ii) the Company gives the holders of the warrants written notice of

such occurrence within 30 days of such occurrence, in which case the warrants will expire on the 30th day following the giving of such notice.

7. SHARE CAPITAL (cont'd.)

b] Share purchase warrants

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

	Number of warrants	Weighted average exercise price $
Balance, November 30, 2005	1,083,715	0.45
Exercised	(1,083,715)	0.45
Balance, November 30, 2006	—	—
Issued	28,300,000	0.64
Balance, May 31, 2007	28,300,000	0.64

c] 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. Under the plan 10% of the Company's issued and outstanding common shares are reserved for issuance. Under the terms of the plan, the exercise price of each option is to be fixed by the Board or a committee thereof, at the time of grant, provided that such exercise price may not be less than the Discounted Market Price (as defined in the policies of the TSX Venture Exchange) of the Common Shares or such other prices as may be determined under the applicable rules and regulations of all regulatory authorities to which the Company is subject, including the TSX Venture Exchange. Stock options granted under the plan will vest on a basis determined by the Board, and will be exercisable for a period not exceeding five years, unless otherwise determined by the Board, or a committee thereof, at the time of grant. In the absence of any determination by the Board as to vesting, vesting shall be as to one third on the date of grant and one third on each of the second and third anniversaries of the date of grant.

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

	Number of options	Weighted average exercise price $
Outstanding, November 30, 2005	6,381,400	1.05
Granted	3,975,000	0.57
Exercised	(199,400)	0.12
Cancelled/expired	(6,850,800)	1.12
Outstanding, May 31, 2007 & November 30, 2006	3,306,200	0.39

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Six months ended May 31, 2007

7. SHARE CAPITAL (cont'd.)

Additional information regarding options outstanding as at May 31, 2007 is as follows:

	Outstanding			Exercisable	
Exercise prices $	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number of options	Weighted average exercise price $
0.24	81,200	1.3	0.24	81,200	0.24
0.39	3,225,000	4.4	0.39	645,000	0.39
	3,306,200	4.3	0.39	726,200	0.37

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:

	November 30, 2006
Interest rate	3.81%
Expected life (in years)	4.5
Expected volatility	126%

d] Contributed surplus

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

	Amount $
Balance, November 30, 2005	2,865,074
Grant of stock options	1,649,524
Exercise of stock options	(13,958)
Balance, November 30, 2006	4,500,640
Grant of stock options	97,724
Balance, May 31, 2007	**4,598,364**

8. RELATED PARTY TRANSACTIONS

During the periods ended May 31, 2007 and 2006, the Company was involved in the following related party transactions. All transaction with related parties are recorded at the exchange amount.

[a] The Company paid consulting fees of $51,000 [May 31, 2006 - $51,000] to a company controlled by the President and director of the Company.

[b] The Company paid accounting fees of $6,000 [May 31, 2006 - $6,000] to a company controlled by the Secretary of the Company.

[c] The amount of $5,241 [November 30, 2006 - $Nil] is due to a company owned 50% by the President and director of the Company and 50% by his spouse. The amount owing is for the reimbursement of travel and other expenses incurred on behalf of the Company and is non-interest bearing, unsecured and due on demand.

[d] The amount of $37,727 [November 30, 2006 - $Nil] is due to the Chairman, CEO and director of the Company. The amount owing is for the reimbursement of travel and other expenses incurred on behalf of the Company and is non-interest bearing, unsecured and due on demand.

[e] The Company paid secretarial fees of $18,344 [May 31, 2006 - $nil] to the spouse of the President and director of the Company.

[f] During the period ended May 31, 2007, the Company issued 11,000,000 flow-through units at $0.32 per Unit and 443,750 non flow-through units at $0.32 per Unit to directors of the Company.

[g] During the period ended May 31, 2007, the Company issued 9,815,700 units at $0.60 per Unit to directors and companies controlled by directors 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.

9. COMMITMENTS AND CONTINGENCIES

[a] There is a contingent liability in respect of five irrevocable standby letters of credit for $738,875 [November 30, 2006 - $800,125], 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 6]. 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 AND CONTINGENCIES (cont'd.)

[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 and is renewable for additional periods of two (2) years at the sole discretion of the Company. Twelve months' notice is required for termination by the Company without cause. The Company has renewed this arrangement and is obligated to pay $8,500 per month until December 31, 2008.

[c] On December 6, 2006, the Company renewed its operating lease agreement for its office premises. The lease is for a period of 2 years and 4 months commencing on December 1, 2006 and expiring on March 31, 2009. Under the terms of the lease, the Company is committed to payments of $21,775 per annum plus operating expenses and property taxes.

[d] The Company and its consortium have an outstanding take or pay contract with Keyera Energy Partnership for a period of 5 years commencing July 1, 2006. The consortium has an obligation to deliver over the term of the contract the following:

Contract Year	**Nomination e3m3/day**
1	141.0
2	112.7
3	90.1
4	72.1
5	57.7

In the event the consortium does not meet its entire obligation the Company will be charged the following for its portion:

	$
June 2007	63,543
June 2008	50,869
June 2009	40,666
June 2010	32,541
June 2011	26,044

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10. INCOME TAXES

Future income tax assets and liabilities are calculated at the substantively enacted tax rate of 32%. The tax effect of the significant temporary differences which comprise future tax assets and liabilities are as follows:

	May 31, 2007 $	November 30, 2006 $
Future income tax assets:		
Non-capital loss carry forwards	**713,000**	749,000
Other	**775,000**	298,000
Gross future income tax assets	**1,488,000**	1,047,000
Valuation allowance	**(235,000)**	(235,000)
Net future income tax assets	**1,253,000**	812,000
Future income tax liability	**2,047,603**	1,725,242
Net future income tax liability	**794,603**	913,242