

Financial Statements

Pacific Roder Energy Inc.
(A Development Stage Company)
August 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

	August 31, 2007 \$	November 30, 2006 \$
	Unaudited	Audited
ASSETS		
Current		
Cash and cash equivalents	23,254,664	874,508
Cash committed for oil and gas exploration	2,538,129	—
Amounts and interest receivable	97,483	36,651
Prepaid expenses and deposits	37,433	23,248
Deferred financing costs	—	57,500
Total current assets	25,927,709	991,907
Refundable deposits <i>[notes 3 and 9a]</i>	738,875	800,125
Equipment <i>[note 4]</i>	13,031	10,251
Oil and gas properties <i>[note 5]</i>	13,621,150	12,447,464
Total assets	40,300,765	14,249,747
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	454,372	3,844,400
Due to related parties <i>[note 8]</i>	15,516	—
Total current liabilities	469,888	3,844,400
Asset retirement obligation <i>[note 6]</i>	23,178	24,011
Future income taxes <i>[note 10]</i>	769,902	913,242
Total liabilities	1,262,968	4,781,653
Commitments and contingencies <i>[notes 6 and 9]</i>		
Subsequent events <i>[note 11]</i>		
Shareholders' equity		
Share capital <i>[note 7]</i>	57,686,536	28,153,471
Contributed surplus <i>[note 7]</i>	4,647,226	4,500,640
Deficit	(23,295,965)	(23,186,017)
Total shareholders' equity	39,037,797	9,468,094
Total liabilities and shareholders' equity	40,300,765	14,249,747

See accompanying notes

On behalf of the Board:

"Michael G. Greenwood"
Director

"David J.L. Williams"
Director

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

STATEMENT OF INCOME AND RETAINED EARNINGS

	Three months Ended Aug. 31, 2007 \$	Three months Ended Aug. 31, 2006 \$	Nine months Ended Aug. 31, 2007 \$	Nine months Ended Aug. 31, 2006 \$
REVENUE				
Petroleum and natural gas sales	247,738	124,331	970,486	167,161
Less: royalties	36,868	25,320	150,203	32,552
	210,870	99,011	820,283	134,609
EXPENSES				
Accretion	600	—	1,609	—
Amortization and depletion	159,360	551	478,146	1,743
Consulting fees <i>[note 8]</i>	29,000	26,677	86,842	82,677
Field operating costs	109,856	52,442	329,470	61,565
Interest and bank charges	1,320	1,357	1,871	82,368
Office, rent and telephone <i>[note 8]</i>	39,260	17,610	111,324	79,742
Professional fees <i>[note 8]</i>	41,698	14,430	146,294	31,730
Stock-based compensation	48,862	238,098	146,586	1,335,891
Transfer agent, regulatory fees and shareholder relations	37,650	7,802	104,442	24,537
Travel and promotion	17,643	14,465	78,284	28,483
Write off of capital assets	-	—	572	—
Less: interest income	(282,513)	(239)	(547,788)	(42,244)
	202,736	373,193	937,652	1,686,492
Gain (loss) for the period before income taxes	8,134	(274,182)	(117,369)	(1,551,883)
Future income tax recovery	(5,515)	—	(7,421)	—
Net income (loss) and other comprehensive income (loss)	13,649	(274,182)	(109,948)	(1,551,883)
Deficit, beginning of period	(23,309,614)	(21,767,501)	(23,186,017)	(20,489,800)
Deficit, end of period	(23,295,965)	(22,041,683)	(23,295,965)	(22,041,683)
Net income (loss) per share - basic and diluted	0.00	(0.01)	(0.00)	(0.03)
Weighted average number of shares outstanding	104,448,391	48,824,098	90,035,753	48,369,502

See accompanying notes

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

STATEMENTS OF CASH FLOWS

	Three months ended Aug. 31, 2007 \$	Three months ended Aug. 31, 2006 \$	Nine months ended Aug. 31, 2007 \$	Nine months ended Aug. 31, 2006 \$
OPERATING ACTIVITIES				
Net income (loss)	13,649	(274,182)	(109,948)	(1,551,883)
Adjustments to reconcile net loss to net cash used in operating activities				
Accretion	600	—	1,609	—
Amortization and depletion	159,360	551	478,146	1,743
Write down of capital assets	-	—	572	—
Stock-based compensation	48,862	238,098	146,586	1,335,891
Future income tax recovery	(5,515)	—	(7,421)	—
Changes in operating assets and liabilities				
Amounts and interest receivable	44,863	3,857	(60,832)	(1,476)
Prepaid expenses and deposits	11,800	—	(14,185)	(7,500)
Accounts payable and accrued liabilities	(647,332)	897,414	(3,390,028)	(411,755)
Due to related parties	(30,652)	18,020	15,516	10,522
Net cash provided by operating activities	(404,365)	883,758	(2,939,985)	(624,458)
INVESTING ACTIVITIES				
Refundable deposits	—	—	61,250	(328,125)
Acquisition of equipment	(800)	—	(5,652)	(1,219)
Acquisition of and expenditures upon oil and gas properties	(119,295)	(1,361,658)	(1,649,533)	(4,095,849)
Asset retirement obligation	1,275	—	(2,442)	—
Net cash used in investing activities	(118,820)	(1,361,658)	(1,596,377)	(4,425,193)
FINANCING ACTIVITIES				
Proceeds from issuance of shares, net of issuance costs	(59,957)	—	29,397,147	495,544
Deferred financing costs	—	—	57,500	—
Net cash provided by financing activities	(59,957)	—	29,454,647	495,544
Increase (Decrease) in cash and cash equivalents	(583,142)	(477,900)	24,918,285	(4,554,107)
Cash and cash equivalents, beginning of period	26,375,935	1,455,342	874,508	5,531,549
Cash and cash equivalents, end of period	25,792,793	977,442	25,792,793	977,442
Cash and cash equivalents consist of:				
Cash	23,254,664	977,442	23,254,664	977,442
Cash committed for oil and gas exploration	2,538,129	—	2,538,129	—
	25,792,793	977,442	25,792,793	977,442
Non-cash investing and financing activities				
Issuance of common shares for finders' fees	---	—	109,896	—
Supplemental disclosures				
Interest paid	—	—	—	—
Income taxes paid	—	—	—	—

See accompanying notes

Pacific Rodera Energy Inc.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Nine months ended August 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 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. The Company holds no asset backed securities.

Pacific Rodera Energy Inc.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Nine months ended August 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.

Pacific Rodera Energy Inc.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Nine months ended August 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 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.

Pacific Rodera Energy Inc.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Nine months ended August 31, 2007

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.

Gain or Loss per share

Basic Gain or 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.

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. The Company does not hold any asset backed securities as short term investments. The Companies investment policy is to hold only bank notes (BA's or GIC's), Government of Canada or Provincial issued securities such as T-bills or short term notes.

Pacific Rodera Energy Inc.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Nine months ended August 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

The Corporation currently holds no financial instruments that are either an available for sale asset nor any effective cash flow hedging instrument nor is the Corporation's foreign exchange related to a self sustaining foreign investments. As a result of this, the changes arising from CICA sections 1530, 3251, 3855 and 3865 have no material effect on the financial statements of the Corporation at August 31, 2007

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	Net book
	\$	amortization	value
		\$	\$
August 31, 2007			
Equipment	35,295	22,264	13,031
November 30, 2006			
Equipment	31,383	21,132	10,251

5. OIL AND GAS PROPERTIES

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

Pacific Rodera Energy Inc.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Nine months ended August 31, 2007

OIL AND GAS PROPERTIES (cont'd.)

	Northwest Territories Prospects [a] \$	Tulita Prospects [b] \$	Trutch Prospect [c] \$	Total \$
August 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	45,956	97,213	1,506,364	1,649,533
Abandonment costs	—	—	-	-
Exploration and development, end of period	6,863,224	3,836,371	3,219,646	13,919,241
Acquisition costs, beginning of year	—	—	385,717	385,717
Acquisition costs, during the period	—	—	—	—
Acquisition costs, end of period	—	—	385,717	385,717
	6,863,224	3,836,371	3,605,363	14,304,958
Accumulated depletion, beginning of year	—	—	(207,961)	(207,961)
Accumulated depletion, during the period	—	—	(475,846)	(475,846)
Accumulated depletion, end of period	—	—	(683,807)	(683,807)
Net carrying value	6,863,224	3,836,371	2,921,556	13,621,151
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 August 31, 2007 \$10,699,595 (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 August 31, 2007 (November 30, 2006 - \$331,000) have been assigned were added to the Company's net book value in the depletion calculation.

Pacific Rodera Energy Inc.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Nine months ended August 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	Gas (\$Mcf)
	\$/boe	
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.

Pacific Rodera Energy Inc.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Nine months ended August 31, 2007

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

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.

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%.

Pacific Rodera Energy Inc.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Nine months ended August 31, 2007

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

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 wells were approximately \$6,900,000. In fiscal 2004, the Company fulfilled its obligations under the farm-in 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. During the year ended November 30, 2005, deferred exploration costs of \$81,075 representing the costs of an abandoned well on 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:

	August 31, 2007	November 30, 2006
	\$	\$
Asset retirement obligation, beginning of period	24,011	—
Liabilities incurred	(2,442)	23,042
Accretion expense	1,609	969
Asset retirement obligation, end of period	23,178	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 \$63,924 [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:

Pacific Rodera Energy Inc.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Nine months ended August 31, 2007

7. SHARE CAPITAL (cont'd.)

	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
Issued for finders' fees	183,160	109,896
Share issuance costs, net of future income tax (\$455,919)	—	(968,830)
Less: tax benefit renounced to subscribers	—	(320,000)
Balance August 31, 2007	105,741,058	57,686,537

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

Pacific Rodera Energy Inc.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Nine months ended August 31, 2007

7. SHARE CAPITAL (cont'd.)

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. 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.

c] 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, August 31, 2007	28,300,000	0.64

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. 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

Pacific Rodera Energy Inc.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Nine months ended August 31, 2007

7. SHARE CAPITAL (cont'd.)

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, August 31, 2007 & November 30, 2006	3,306,200	0.39

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

Exercise prices \$	Number of options	Outstanding		Exercisable	
		Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
0.24	81,200	1.0	0.24	81,200	0.24
0.39	3,225,000	4.1	0.39	645,000	0.39
	3,306,200	4.0	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%

Pacific Rodera Energy Inc.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Nine months ended August 31, 2007

7. SHARE CAPITAL (cont'd.)

e] 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	146,586
Balance, August 31, 2007	4,647,226

8. RELATED PARTY TRANSACTIONS

During the periods ended August 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 \$76,500 [August 31, 2006 - \$76,500] to a company controlled by the President and director of the Company.
- [b] The Company paid accounting fees of \$9,000 [August 31, 2006 - \$9,000] to a company controlled by the Secretary of the Company.
- [c] The amount of \$6,506 [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 Company paid secretarial fees of \$18,344 [August 31, 2006 - \$nil] to the spouse of the President and director of the Company.
- [e] During the period ended August 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.
- [f] During the period ended August 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.

Pacific Rodera Energy Inc.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Nine months ended August 31, 2007

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.
- [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. Subsequent to the quarter the parties agreed to terminate this agreement September 30, 2007 and waive all future obligations including the twelve months notice period.
- [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

Pacific Rodera Energy Inc.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Nine months ended August 31, 2007

9. COMMITMENTS AND CONTINGENCIES (cont'd.)

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

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:

	August 31, 2007 \$	November 30, 2006 \$
Future income tax assets:		
Non-capital loss carry forwards	680,000	749,000
Other	794,000	298,000
Gross future income tax assets	1,474,000	1,047,000
Valuation allowance	(235,000)	(235,000)
Net future income tax assets	1,239,000	812,000
Future income tax liability	2,008,902	1,725,242
Net future income tax liability	769,902	913,242

Pacific Rodera Energy Inc.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Nine months ended August 31, 2007

11. SUBSEQUENT EVENTS

[a] On September 5, 2007, the Company announced the following appointments Mr. Mark Hornett as director, president and chief operating officer, Mr. Roger Harman as chief financial officer, Andrew Arthur as vice-president exploration, Mr Doug Crawford as vice-president production and Mr. Gerry Talbot as vice-president land. In addition, Messers. Hornett, Harman, Arthur, Crawford and Talbot agreed to subscribe for a total of up to 3.6 million units of the Company at a price of \$0.50 per unit for gross proceeds of approximately \$1.8 million. Each unit will consist of one common share of the Company to be issued on a flow-through basis and one-half of one non-transferable common share purchase warrant. Each whole warrant will entitle the holder to subscribe for one additional common share at a price of \$0.70 per common share. The warrants will expire on March 2, 2009, unless:

1. During the period commencing on the date that is four months following the closing date and ending on March 2, 2009, the daily volume-weighted average trading price of the common shares on the TSX Venture Exchange (or such other stock exchange where the majority of the trading volume occurs) exceeds \$1.00 for each day of a period of 20 consecutive trading days;
2. 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 at 4 p.m. (Calgary time) on the 30th day following the giving of notice.

Also, on September 5, 2007, the Company announced the granting of three million incentive stock options at a price of \$0.50 to the new officers of the Company. These options are exercisable for a period of five years and one-third of these options will vest on September 5, 2008 with the balance to vest in equal parts on September 5, 2009 and September 5, 2010.

[b] On October 3, 2007, the Company announced that it had closed the aforementioned private placement. The Company sold 3.65 million flow-through units at a price of \$0.50 per unit for gross proceeds of \$1,825,000.

[c] The Company also announced that it would participate in the drilling of two new wells in the Summit/Keele area of the Northwest Territories during the winter of 2007/2008. The Company has also agreed in principle to increase its working interest in EL 423 to 10% and in EL 397 to 9%.

[d] Effective October 1, 2007 Mr. Williams resigned as President and was appointed as Senior Vice President Business Development and Investor Relations.