

## AUDITORS' REPORT

To the Shareholders of  
**Pacific Roder Energy Inc.**

We have audited the balance sheet of **Pacific Roder Energy Inc.** as at December 31, 2008 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada,  
February 16, 2009.

*Ernst & Young LLP*

Chartered Accountants

## Balance Sheets

<b>Assets</b>	<b>December 31, 2008</b>	<b>December 31, 2007</b>	<b>November 30, 2007</b>
<b>Current Assets</b>			
Cash and short-term investments (Note 4)	\$ 21,061,387	\$ 23,626,946	\$ 24,632,058
Accounts receivable	101,643	179,836	196,325
Prepaid expenses	124,684	108,087	115,122
	<b>21,287,714</b>	<b>23,914,869</b>	<b>24,943,505</b>
Refundable term deposits (Note 5)	962,301	1,002,672	738,875
Equipment	51,376	49,194	35,764
Petroleum and natural gas properties (Note 7)	11,479,939	16,794,866	16,233,933
	<b>\$ 33,781,330</b>	<b>\$ 41,761,601</b>	<b>\$ 41,952,077</b>
<b>Liabilities</b>			
<i>Current liabilities</i>			
Accounts payable and accrued liabilities (Note 6)	\$ 875,229	\$ 563,692	\$ 707,305
	<b>875,229</b>	<b>563,692</b>	<b>707,305</b>
Asset retirement obligation (Note 8)	-	17,472	17,363
Future income taxes (Note 9)	-	1,450,936	1,075,512
	<b>875,229</b>	<b>2,032,100</b>	<b>1,800,180</b>
<b>Shareholders' equity</b>			
Share capital (Note 10)	49,865,004	50,159,446	50,465,686
Warrant equity (Note 10)	8,623,448	8,608,550	8,608,550
Contributed surplus	5,090,610	4,805,858	4,765,298
Deficit	(30,672,961)	(23,844,353)	(23,687,637)
	<b>32,906,101</b>	<b>39,729,501</b>	<b>40,151,897</b>
	<b>\$33,781,330</b>	<b>\$ 41,761,601</b>	<b>\$ 41,952,077</b>

See accompanying notes to the financial statements

Contingencies [Note 12]

Approved by the Board

[signed] "Michael Greenwood"

Michael G. Greenwood

Director

[signed] "Mark Hornett"

Mark Hornett

Director

## Statements of Operations, Comprehensive Loss and Deficit

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	<i>Year ended December 31, 2008</i>	<i>One month period ended December 31, 2007</i>	<i>Year ended November 30, 2007</i>
<b>Revenue</b>			
Oil and gas	\$ 477,211	\$ 74,651	\$ 1,189,786
Royalties net of royalty tax credit	(62,492)	(11,258)	(168,756)
	<b>414,719</b>	<b>63,393</b>	<b>1,021,030</b>
<b>Expenses</b>			
Production and operating	96,672	28,240	466,971
General and administration	1,434,148	137,273	720,517
Interest	26,841	-	1,872
Depletion, amortization and accretion	241,134	34,077	631,531
Impairment of petroleum & natural gas properties	7,854,284	-	411,248
Stock based compensation	284,752	40,560	264,658
	<b>9,937,831</b>	<b>240,150</b>	<b>2,496,797</b>
Loss from operations	(9,523,112)	(176,757)	(1,475,767)
Interest and other income	782,025	89,225	835,035
Loss before income taxes	(8,741,087)	(87,532)	(640,732)
Income tax (expense) recovery (Note 9)	1,912,479	(69,184)	139,112
Net loss and comprehensive loss	<b>\$ (6,828,608)</b>	<b>\$ (156,716)</b>	<b>\$ (501,620)</b>
Deficit, beginning of period	(23,844,353)	(23,687,637)	(23,186,017)
Deficit, end of period	<b>\$ (30,672,961)</b>	<b>\$ (23,844,353)</b>	<b>\$ (23,687,637)</b>
Loss per share – basic and diluted	\$ (0.06)	\$ (0.00)	\$ (0.01)
Weighted average shares outstanding	109,653,802	109,391,058	94,789,867
Diluted weighted average shares outstanding	109,653,802	109,391,058	94,789,867

*See accompanying notes to financial statements*

## Statements of Cash Flows

	Year ended December 31, 2008	One month period ended December 31, 2007	Year ended November 30,2007
<b>Cash provided by (used in):</b>			
<b>Operations</b>			
Net loss	\$ (6,828,608)	\$ (156,716)	\$ (501,620)
<i>Items not involving cash</i>			
Depletion, amortization and accretion	241,134	34,077	631,531
Stock based compensation	284,752	40,560	264,658
Future income tax (recovery)	(1,912,479)	69,184	(139,112)
Impairment loss on petroleum and natural gas properties	7,854,284	-	411,248
Asset retirement obligation	-	109	(6,648)
Funds from (used in) operations	(360,917)	(12,786)	660,057
Change in non cash working capital related to operations	373,133	(120,089)	(3,331,143)
	12,216	(132,875)	(2,671,086)
<b>Financing</b>			
Issue of shares	163,865	-	22,613,597
Warrants issued with shares	18,135	-	8,608,550
	182,000	-	31,222,147
<b>Investing activities</b>			
Exploration and development expenditures	(4,121,171)	(544,288)	(4,530,641)
Capitalized G&A costs	(856,978)	(50,722)	(298,607)
Redemption (Issue) of security deposits	40,371	(263,797)	61,250
Asset disposal	2,200,000	-	-
Equipment	(21,997)	(13,430)	(25,513)
	(2,759,775)	(872,237)	(4,793,511)
Increase (decrease) in cash	(2,565,559)	(1,005,112)	23,757,550
Cash and short term investments, beginning of period	23,626,946	24,632,058	874,508
Cash and short term investments, end of period	\$ 21,061,387	\$ 23,626,946	\$ 24,632,058
Interest paid during the period	\$ 26,841	\$ -	\$ 1,872
Taxes paid during the period	\$ -	\$ -	\$ -

*See accompanying notes to financial statements*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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*(Tabular amounts in thousands except per share amounts)*

## Note 1: Basis of Presentation

Pacific Rodera Energy Inc. ("the Company") was formed in the Province of British Columbia, Canada, by the amalgamation on March 1, 1999, 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.

In order to be comparable with industry peers the Company changed its year end, during 2007, from November 30 to December 31. Accordingly these financial statements reflect result of operations for the year ended December 31, 2008 in comparison to the one month period ended December 31, 2007 and the year ended November 30, 2007. As a result, readers are cautioned the results of operations and cash flows are not readily comparable. Canada Revenue Agency has approved this change in year end.

The financial statements are presented in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles. In management's opinion, they have been prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

## Note 2: Significant Accounting Policies

- a) Cash and short-term investments - Cash and short-term investments consist of balances with banks and investments in highly liquid short-term deposits with a maturity date of less than ninety days.
- b) Petroleum and Natural Gas Properties – Pacific Rodera Energy Inc. is engaged in the acquisition, exploration, development and production of oil and gas in Canada. The Company follows the full-cost method of accounting for oil and gas operations whereby all costs relating to the acquisition of, exploration for and development of oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and nonproductive wells, costs of production equipment and overhead charges related to acquisition, exploration and development activities.

The costs are amortized using the unit-of-production method based upon the estimated proved oil and gas reserves, before royalties, as determined by the Company's independent engineers. The relative volumes of oil and natural gas reserves and production are converted to equivalent barrels of oil based on the relative energy content of each product on a one barrel to six thousand cubic feet basis.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion

calculations.

The Company performs a ceiling test in a two-stage test performed at least annually:

- i) Impairment is recognized if the carrying value of the oil and gas assets less accumulated depletion and amortization and the lesser of cost and fair value of unproven properties exceeds the estimated future cash flows from proved oil and gas reserves, on an undiscounted basis, using forecast prices and costs.
- ii) If impairment is indicated by applying the calculations described in i) above, the Company will measure the amount of the impairment by comparing the carrying value of the oil and gas assets less accumulated depletion and amortization and the lesser of cost and fair value of unproven properties to the estimated future cash flows from the proved and probable oil and gas reserves, discounted at the Company's credit-adjusted risk-free rate of interest, using forecast prices and costs. Any impairment is included in earnings for the year.

Proceeds received from disposals of properties and equipment are credited against capitalized costs unless the disposal would alter the rate of depletion and depreciation by more than 20%, in which case a gain or loss on disposal is recorded. Amortization of other equipment is provided on a diminishing balance basis at rates ranging from 20% to 100% per annum. Gains and losses from disposals are included in income.

- c) Asset Retirement Obligation – The Company follows the recommendations for asset retirement obligations as set out in the CICA Handbook section 3110. This standard requires the recognition and measurement of liabilities related to the legal obligation to abandon and reclaim property, plant and equipment incurred upon acquisition, construction, development and/or normal use of the asset. The initial liability must be measured at fair value and subsequently adjusted for the accretion of discount and changes in fair value. The asset retirement cost is capitalized as part of property and equipment and depleted into earnings based on units of production. Actual costs incurred upon settlement of the obligations are charged against the liability.
- d) Joint Ventures - The Company's exploration and development activities related to oil and gas are conducted jointly with others. The accounts reflect only the Company's proportionate interest in such activities.
- e) Income Taxes - The Company follows the liability method of accounting for income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. Future income tax assets are evaluated and if their realization is not considered "more likely than not", a valuation allowance is provided.
- f) Revenue recognition - Revenue from the sale of oil and gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including

operating and maintenance costs, transportation, and production-based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

- g) Flow-through shares - The Company, from time to time, issues flow-through shares to finance a portion of its oil and gas exploration activities. The exploration and development expenditures funded by flow-through shares are renounced to subscribers in accordance with the Income Tax Act (Canada). The estimated value of the tax pools foregone is reflected as a reduction in share capital with a corresponding increase in the future income tax liability at the time the relevant expenditures are renounced.
- h) Measurement Uncertainty - The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Company's 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, royalties and expenses during the reporting period. Actual results could differ materially from those estimates. The amounts recorded for depletion and depreciation of petroleum and natural gas properties, the provision for asset retirement obligations and the ceiling test are based on estimates of proven reserves, production rates, oil and gas prices and other relevant 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.
- i) Stock Based Compensation – The Company follows the accounting standard on stock based compensation as presented in the CICA handbook section 3870. This standard requires the recognition of stock-based compensation expense for “awards to” or “grants to” employees and non-employees using the fair value method. The standard requires the fair value of all stock based compensation awards to be expensed over the vesting period of the award with an offsetting credit to contributed surplus. The Black-Scholes option pricing model has been used to calculate the fair value of the options granted. Consideration paid by the optionees on exercise of the stock option is credited to share capital together with any amounts previously included in contributed surplus. Stock based compensation amounts are determined using certain assumptions. (see note 10)
- j) Per share amounts – The Company follows the treasury stock method for the computation of diluted per share amounts. This method assumes the proceeds from the exercise of dilutive options and warrants are used to purchase common shares at the weighted average market price during the period.
- k) Financial Instruments – Recognition and Measurement - The Financial Instruments standard, Section 3855 establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods is dependent on whether the financial instrument has been classified as “held-for-trading”, “available-for-sale”, “held-to-maturity”, “loans and receivables”, or “other financial liabilities” as defined by the standard.

Financial assets and financial liabilities “held-for-trading” are measured at fair value with changes in those fair values recognized in net earnings. Financial assets “available-for-sale” are measured at fair value, with changes in those fair values measured in OCI. Financial assets “held-to-maturity”, “loans and receivables”, and “other financial liabilities” are measured at amortized cost using the effective interest method of amortization. Cash is designated as “held-for-trading” and is measured at carrying value, which approximates fair value due to the short-term nature of this instrument. Accounts receivable are designated as “loans and receivables” and are subsequently measured at amortized cost. Accounts payable, and accrued liabilities are designated as “other liabilities” and are also subsequently measured at amortized cost.

### Note 3: Changes in Accounting Policies

#### International Financial Reporting Standards (“IFRS”)

In February 2008, the Accounting Standards Board (“AcSB”) confirmed that the use of IFRS will be required in 2011 for publicly traded enterprises in Canada. In April 2008, the AcSB issued an IFRS Omnibus Exposure Draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended December 31, 2010, and an opening balance sheet as at January 1, 2010 following IFRS. The AcSB proposes that the CICA Handbook Section, Accounting Changes, paragraph 1506.30, which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but not yet effective and that the entity has not yet applied, not be applied with respect to the IFRS Omnibus Exposure Draft. Pacific Roderer is continuing to assess the financial reporting impact of the adoption of IFRS, and at this time, the impact on the future financial position and results of operations is not fully determinable or estimable. The Company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required, as well as system changes that may be required to gather and process the required information.

### Note 4: Cash and Short Term Deposits

The Company has cash and short term investments of \$21,061,387 (December 2007 - \$23,626,946; November 2007 - \$24,632,058) available to fund future opportunities and operations.

## Note 5: Northwest Territories Licenses and Related Term Deposits

The Company has refundable term deposits of \$962,301 (December 2007 - \$1,002,672; November 2007 - \$738,875) of which \$21,799 (December 2007 – nil; November 2007 - nil) is a deposit with the Energy Resources Conservation Board and the balance relates to work commitments on the Northwest Territories licenses. Under the terms of the licenses listed below the Company has assigned term deposits totaling \$940,502 (December 2007 - \$1,002,672; November 2007 - \$738,875) to cover the work commitments made by the Company on the licenses and accordingly, the deposits have been classified as a non-current asset. To the extent eligible expenditures are incurred by the Company the term deposits will be released on the basis of 25% of the expenditures. If they are not incurred within the period allowed, the Company would forfeit its proportionate share of any remaining deposits relating to the unexpended work commitment. To meet the conditions of the licenses the Company, along with partners, is required to drill a well on the license before the expiry of period 1 and, before the end of period 2, apply for a significant discovery license. The funds relating to the work deposit must be expended in period 1. As long as a well is drilling before the end of period 1, period 1 is extended until the well has been completed. Period 1 can also be extended by posting a drilling deposit and paying annual lease rentals. The Company, in conjunction with partners, has drilled two wells on EL 423 which completes the work commitment on EL 423. The Company is working with the operator to ensure timely release of the term deposits.

### Deposits

#### Work commitments met, waiting on approvals.

License	Work Deposit	Commitment	Expiry Date Period 1	Expiry Date Period 2
EL 423	\$ 612,377	\$2,449,508	June 8, 2008	June 8, 2012

#### Work commitments remaining

License	Work Deposit	Commitment	Expiry Date Period 1	Expiry Date Period 2
EL 441	\$ 328,125	\$1,312,500	May 10, 2010	May 10, 2014

## Note 6: Accounts Payable and Accrued Liabilities.

A large portion of the accounts payable and accrued liabilities relate to cost overruns on the drilling of the two wells in the Northwest Territories of which the Company has booked its maximum obligation under the agreement. The Company is reviewing the details and justifications for these cost overruns.

Note 7: Petroleum and Natural Gas Properties.

	December 31 2007	Additions	Disposals	Impairment	December 31 2008
Petroleum and natural gas properties	\$ 17,647,977	4,978,053	(3,291,807)	(7,854,284)	\$ 11,479,939
Accumulated depletion	\$ 853,111	221,224	(1,074,335)		\$ -
Net carrying value P&NG properties	<u>\$ 16,794,866</u>	<u>4,756,829</u>	<u>(2,217,472)</u>	<u>(7,854,284)</u>	<u>\$ 11,479,939</u>

	November 30 2007	Additions	Disposals	Impairment	December 31 2007
Petroleum and natural gas properties	\$17,054,038	593,939	-	-	\$ 17,647,977
Accumulated depletion	\$ 820,105	33,006	-	-	\$ 853,111
Net carrying value P&NG properties	<u>\$16,233,933</u>	<u>560,933</u>	<u>-</u>	<u>-</u>	<u>\$16,794,866</u>

	November 30 2006	Additions	Disposals	Impairment	November 30 2007
Petroleum and natural gas properties	\$12,655,425	4,809,861	-	(411,248)	\$ 17,054,038
Accumulated depletion	\$ 207,961	612,144	-	-	\$ 820,105
Net carrying value P&NG properties	<u>\$12,447,464</u>	<u>4,197,717</u>	<u>-</u>	<u>(411,248)</u>	<u>\$ 16,233,933</u>

During 2008 the Company invested in the drilling costs of the Dahadinni B-20 well and the Keele River L-52 well in the Northwest Territories and a well in central Alberta. In the first quarter of 2008 the Company impaired the value of Northwest Territories EL-423 due to the disappointing drilling results. On May 29, 2008 the Company closed the sale of the NE British Columbia Trutch property for \$2,200,000 cash and removed the assets, accumulated depletion and asset retirement obligations from the financial records. The net proceeds from the sale were lower than the net carrying costs of the property by \$208,985.

At December 31, 2008 the Company wrote off the remaining book value of its Western Canadian assets due to the disappointing drilling results and absence of resources. The remaining book value for petroleum and natural gas properties at December 2008 relate to the Companies Northwest Territories assets. Subsequent to the end of the year the Federal Government has offered financial support for the Mackenzie Valley Pipeline which increases the viability of all the Northwest Territories projects.

### Unproven oil and gas properties excluded from depletion

	Year ended December 31, 2008	One month period ended December 31, 2007	Year ended November 30, 2007
Northwest Territories	\$ 11,479,939	\$ 13,883,896	\$ 13,344,897
International	-	2,002	-
Western Canada	-	777,630	724,802
Total	\$ 11,479,939	\$ 14,663,528	\$ 14,069,699

### Capitalized General and Administrative costs

	Year ended December 31 2008	One month period ended December 31 2007	Year ended November 30 2007
Western Canada	\$ 856,978	\$ 50,722	\$ 298,607
Total	\$ 856,978	\$ 50,722	\$ 298,607

The Company started capitalizing the portion of its general and administrative costs that relate to future prospects in 2007. As the capitalized general and administrative costs all related to the western Canadian assets these costs were impaired in 2008 along with the other western Canadian asset costs.

As the Company does not currently have producing assets there was no ceiling test done at December 31, 2008.

### Note 8: 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.

	Year ended December 31 2008	One month period ended December 31 2007	Year ended November 30 2007
Asset retirement obligation, beginning of period	\$ 17,472	\$ 17,364	\$ 24,011
Liabilities incurred	-	107	2,481
Revisions	-	-	(9,476)
Accretion expense	-	1	347
Disposition	(17,472)	-	-
Asset retirement obligation, end of period	\$ -	\$ 17,472	\$ 17,363

The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligation is nil (December 2007 – \$77,900; November 2007 - \$77,900). Due to the sale of the Trutch property the Company has eliminated the entire asset retirement obligation.

## Note 9: Income Taxes

a) Summary of temporary differences giving rise to future income tax liability:

	December 31, 2008	December 31, 2007	November 30, 2007
Future tax liabilities			
Oil and gas assets in excess of tax balances	\$ 648,858	\$ 2,227,895	\$ 1,916,797
Future tax assets			
Share issue costs and other	(291,936)	(351,150)	(360,561)
Asset retirement obligation	-	(5,329)	(5,296)
Loss carry forward	(543,860)	(420,480)	(475,428)
	<u>(835,796)</u>	<u>(776,959)</u>	<u>(841,285)</u>
Net future income tax liability (asset)	<u>(186,938)</u>	<u>1,450,936</u>	<u>1,075,512</u>
Valuation allowance	186,938	-	-
	<u>\$ -</u>	<u>\$ 1,450,936</u>	<u>\$ 1,075,512</u>

b) Reconciliation of income taxes calculated at the Canadian statutory rate of 29.94% with actual income taxes:

	Year ended December 31, 2008	One month period ended December 31 2007	Year ended November 30, 2007
Loss before income taxes	\$ (8,741,087)	\$ (87,532)	\$ (640,732)
Combined federal and provincial income tax rate	29.94%	33.12%	33.12%
Computed income tax recovery	\$ (2,617,081)	\$ (28,991)	\$ (212,210)
Increase (decrease) in expense resulting from:			
Stock based compensation	85,255	13,433	89,984
Expired losses	75,479	-	-
Tax adjustment from rate change	182,273	(9,829)	(78,880)
Change in valuation allowance	186,938	-	-
Other adjustments	174,657	94,571	61,994
Future income tax expense (recovery)	<u>\$ (1,912,479)</u>	<u>\$ 69,184</u>	<u>\$ (139,112)</u>

The Company currently has tax pools of \$9,288,897 and non capital losses of \$2,150,496.

Expiration dates of the non capital losses:

2009	\$ 191,304
2013	419,119
2014	215,070

2025	261,077
2027	62,499
2028	1,001,427
<u>Total</u>	<u>\$2,150,496</u>

## Note 10: Share Capital

a) Authorized:

Unlimited number of common shares

Unlimited number of preferred shares

b) Voting common shares issued:

	Number	Amount
Balance, November 30, 2006	48,957,898	\$ 28,153,471
Issued - private placements	60,433,160	24,038,346
Issue costs net of future tax reduction of \$393,991		(970,800)
Issue costs net of future tax reduction of \$19,186		(40,771)
Tax benefit renounced to subscribers		(714,560)
Balance, November 30, 2007	109,391,058	50,465,686
Tax benefits renounced to subscribers		(306,240)
Balance December 31, 2007	109,391,058	50,159,446
Purchase warrants exercised	10,000	10,237
Issued – private placement	388,888	156,865
Tax benefits renounced to subscribers		(461,544)
Balance December 31, 2008	109,789,946	\$ 49,865,004
Purchase warrants issued:		
Balance, November 30, 2006	-	-
Issued – private placements	30,125,000	\$ 8,608,550
Balance, November 30, 2007 and December 31, 2007	30,125,000	\$ 8,608,550
Purchase warrants exercised	(10,000)	(3,237)
Issued – private placement	194,444	18,135
Expired	(4,150,000)	-
Balance, December 31, 2008	26,159,444	8,623,448
Share capital, December 31, 2008		<u>\$ 58,488,452</u>

c) Stock options:

The Company has a stock option plan for its directors, officers, employees and key consultants. The exercise price for stock options granted is no less than the quoted market price on the grant date.

Options have vesting periods that range from the date of grant up to three years. An option's maximum term is five years.

	Number of Options	Weighted Average price
Balance, November 30, 2006	3,306,200	\$ 0.39
Granted	3,010,000	0.50
Balance, November 30, 2007 and December 31, 2007	6,316,200	0.44
Cancelled	(1,125,000)	0.50
Granted	400,000	0.65
Balance December 31, 2008	5,591,200	0.45

The following table summarizes information about the stock options outstanding at December 31, 2008:

Options Outstanding				Options Exercisable		
Exercise Price	Number of options	Weighted Average of Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	
\$ 0.24	81,200	0.09	\$ 0.24	81,200	\$ 0.24	
0.39	3,200,000	2.92	0.39	3,200,000	0.39	
0.50	1,900,000	3.68	0.50	700,000	0.50	
0.61	10,000	3.82	0.61	3,333	0.61	
0.65	400,000	4.21	0.65	-	0.65	
\$ 0.24-0.65	5,591,200	3.22	\$ 0.45	3,984,533	\$ 0.41	

A Black-Scholes option pricing model, with the following weighted average assumptions for the year ended December 31, 2008, was used to estimate the fair value of options on the date of the grant, for the inclusion as stock based compensation expense:

Risk free interest rate (%)	3.8
Expected lives (years)	5.0
Expected volatility (%)	75
Dividend per share	0.00

The grant date weighted average fair value of options issued in the quarter ended March 30, 2008 was \$0.41 per option. There were no options granted in the balance of 2008.

On May 6, 2008 the Company completed a private placement of 388,888 units at a price of \$0.45 per unit for gross proceeds of \$175,000. Each unit consisted 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 entitles 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: 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; 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.

#### Additional capital disclosure

The Company continues to optimize its capital structure with a view to ensuring a strong financial position to support its growth strategies. The capital structure of the Company is as follows:

	December 31, 2008	Change %	December 31, 2007	Change %	November 30, 2007
Total shareholders' equity	\$ 32,906,101	(17.2)	\$ 39,729,501	(1.0)	\$40,151,897
Total shareholders' equity as a % of total capital	100%		100%		100%
Short and long term debt	-		-	0.0	-
Total debt as a % of total capital	0%		0%		0%
Total capital	<u>\$ 32,906,101</u>		<u>\$ 39,729,501</u>		<u>40,151,897</u>

The Company intends to use its capital to finance future drilling opportunities as well as fund future acquisition opportunities in the oil and gas industry. The Company is not subject to any statutory requirements or any other externally imposed capital requirements. Commitments exist to issue common shares in connection with existing warrants as well as the established stock option plan with such share issuances to occur from treasury.

#### Note 11: Related Party Transactions

During the year ended December 31, 2008 there was \$1,200 paid to relatives of officers and/or directors of the company for secretarial services and there was a finders' fee of \$12,000 paid to a relative of an officer and director. All amounts were in the normal course of business and under the same terms and conditions as unrelated parties. There were no related party transactions during the one month period ended December 31, 2007. During the year ended November 30, 2007 the Company paid consulting fees of \$85,000 to a company controlled by the then President of the Company, and \$22,094 for secretarial fees to the spouse of the then President. The Company also paid \$11,000 to a company controlled by the former Secretary of the Company. During the year ended November 30, 2007 the then President and his spouse became employees of the

Company which terminated the consulting fees, and the services of the company controlled by the former Secretary were also terminated.

During the year ended December 31, 2008 the Company issued:

- 388,888 flow through units at \$0.45 per unit to management of the Company

During the year ended November 30, 2007 the Company issued:

- 11,000,000 flow through units at \$0.32 per unit and 443,750 non flow-through units to directors of the Company.
- 9,815,700 units at \$0.60 per unit to directors and companies controlled by directors of the Company
- 3,650,000 units at \$0.50 per unit to management of the Company

These transactions were all in the normal course of operations and undertaken with the same terms and conditions as transactions with unrelated parties.

## Note 12: Contingencies and Commitments

There is a contingent liability in respect of two irrevocable standby letters of credit for \$1,002,672 (December 31, 2007 - \$1,002,672; November 30, 2007 - \$738,875), 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. An application has been submitted to reduce the contingent liability by \$62,170 and the Company is confident that all requirements of the remaining work commitments will be fulfilled and all the letters of credit will be cancelled.

The Company has a lease for office premises 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. The Company has sub leased these premises for the entire remaining period of the lease.

The Company has a lease for office premises for a period of 2 years and 7 months commencing May 1, 2008. The lease has early termination clauses that could terminate the lease as early as September 30, 2009. The company is committed to payments of \$163,416 per annum plus operating expenses and property taxes.

The Chairman and Chief Executive Officer has the right to maintain his percentage ownership in future share issues.

## Note 13: Financial Instruments

The only financial instruments the Company has are the accounts receivable and the cash and short term investments. The short term instruments are held in short term, fully secure term deposits, GIC's, T-bills and Bankers Acceptances and only with counterparties with a solid credit background.

The carrying values of these instruments as well as the cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to their short term maturity of them.

The Company has exposure to interest rate risk as it relates to the short term investments. Interest rate risk relates to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company incurs interest rate risk on its cash balances, receivable and payable balances. All cash balances are current and available immediately. The Company does not hedge its exposure to interest rate risk.

If interest rates throughout the year had been 100 basis points lower (higher) then net loss would have been approximately \$227,000 higher (\$227,000 lower).

Liquidity Risk: The recent volatility experienced in the global capital markets may increase the cost of issuance of long-term capital by the Company. The Company currently has no plans to raise any long term capital.

#### Note 14: Subsequent Events

Subsequent to December 31, 2008 the following share purchase warrants expired.

<u>Expiry Date</u>	<u>Number and Price</u>
January 8, 2009	1,650,000 @ \$0.40
March 2, 2009	23,319,485 @ \$0.70

The following share purchase warrants remain:

March 14, 2009	1,189,959 @ \$0.70
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