

# Pacific Rodera Energy Inc.

Suite 1100, 550 6<sup>th</sup> Avenue SW  
Calgary, Alberta  
T2P 0S2

## **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.

## Balance Sheets

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Unaudited

**Assets** **September 30, 2009**      **December 31, 2008**

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**Current Assets**

Cash and short-term investments (Note 4)	\$ 20,573,477	\$ 21,061,387
Accounts receivable	37,434	101,643
Prepaid expenses	65,972	124,684

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	<b>20,676,883</b>	21,287,714
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Cash deposits (Note 5)	349,929	962,301
Equipment	50,441	51,376
Petroleum and natural gas properties (Note 7)	11,464,638	11,479,939

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	<b>\$ 32,541,891</b>	<b>\$ 33,781,330</b>
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**Liabilities**

Current liabilities

Accounts payable and accrued liabilities (Note 6,	\$ 740,134	\$ 875,229
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	<b>740,134</b>	875,229
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**Shareholders' equity**

Share capital (Note 9)	49,818,039	49,865,004
Warrant equity (Note 9)	-	8,623,448
Contributed surplus	13,890,238	5,090,610
Deficit	(31,906,520)	(30,672,961)

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	<b>31,801,757</b>	32,906,101
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	<b>\$ 32,541,891</b>	<b>\$ 33,781,330</b>
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See accompanying notes to the financial statements

Contingencies [Note 11]

Approved by the Board

[signed] "Michael Greenwood"

Michael G. Greenwood

Director

[signed] "Mark Hornett"

Mark Hornett

Director

# Statements of Operations, Comprehensive Loss and Deficit

Unaudited

	<b>Three months ended September 30, 2009</b>	<b>Three months ended September 30, 2008</b>	<b>Nine months ended September 30, 2009</b>	<b>Nine months ended September 30, 2008</b>
<b>Revenue</b>				
Oil and gas	\$ -	\$ -	\$ -	\$ 247,515
Royalties net of royalty tax credit	-	-	-	(24,103)
				223,412
<b>Expenses</b>				
Production and operating	-	-	-	53,556
General and administration	466,466	356,586	1,289,658	972,991
Interest	-	523	-	17,588
Depletion, amortization and accretion	5,030	5,073	14,224	106,092
Impairment of petroleum & natural gas properties	-	-	-	4,109,470
Stock based compensation	55,454	83,700	176,180	323,536
	<b>526,950</b>	<b>445,882</b>	<b>1,480,062</b>	<b>5,583,233</b>
	<b>(526,950)</b>	<b>(445,882)</b>	<b>(1,480,062)</b>	<b>(5,359,821)</b>
Interest and other income	49,650	207,608	199,539	623,765
Loss before income taxes	<b>(477,300)</b>	<b>(238,274)</b>	<b>(1,280,523)</b>	<b>(4,736,056)</b>
Future income tax (expense) recovery (Note 8)	-	(822,702)	46,965	1,850,987
Net loss and other comprehensive income (loss)	<b>(477,300)</b>	<b>584,428</b>	<b>(1,233,558)</b>	<b>(2,885,069)</b>
Deficit, beginning of period	<b>(31,429,219)</b>	<b>(27,313,850)</b>	<b>(30,672,961)</b>	<b>(23,844,353)</b>
Deficit, end of period	<b>\$ (31,906,519)</b>	<b>\$(26,729,422)</b>	<b>\$(31,906,519)</b>	<b>\$(26,729,422)</b>
Loss per share – basic and diluted	<b>\$ (0.00)</b>	<b>\$ 0.01</b>	<b>\$ (0.01)</b>	<b>\$ (0.03)</b>
Weighted average shares outstanding	<b>109,789,946</b>	<b>109,789,946</b>	<b>109,789,946</b>	<b>109,608,089</b>

See accompanying notes to the financial statements

# Statements of Cash Flows

Unaudited

	<b>Three months ended September 30, 2009</b>	<i>Three months ended September 30, 2008</i>	<b>Nine months ended September 30, 2009</b>	<i>Nine months ended September 30, 2008</i>
<b>Cash provided by (used in):</b>				
<b>Operations</b>				
Net income	\$ (477,300)	\$ 584,428	\$ (1,233,558)	\$ (2,885,069)
<i>Items not involving cash</i>				
Depletion, amortization and accretion	5,030	5,073	14,224	106,092
Stock based compensation	55,454	83,700	176,180	323,536
Future income tax	-	(822,702)	(46,965)	(1,850,987)
Impairment loss on petroleum & natural gas properties	-	-	-	4,109,470
Asset retirement expenditures	-	-	-	(17,472)
	<b>(416,816)</b>	<b>(149,501)</b>	<b>(1,090,119)</b>	<b>(214,430)</b>
Change in non cash working capital related to operations	<b>75,044</b>	2,266	<b>(12,174)</b>	358,449
	<b>(341,772)</b>	<b>(147,235)</b>	<b>(1,102,293)</b>	144,019
<b>Financing</b>				
Issue of shares	-	-	-	167,102
Warrants issued with shares	-	-	-	14,898
Sale of property	-	-	-	2,200,000
	-	-	-	2,382,000
<b>Investing activities</b>				
Exploration and development expenditures	<b>(9,049)</b>	<b>(1,157,014)</b>	<b>1,076</b>	<b>(4,843,873)</b>
Inventory	-	(447,753)	-	(447,753)
Redemption of security deposits	<b>(4)</b>	40,371	<b>612,372</b>	98,303
Equipment	<b>2,146</b>	5,073	<b>935</b>	(8,779)
	<b>(6,907)</b>	<b>(1,559,323)</b>	<b>614,383</b>	<b>(5,202,102)</b>
Increase (decrease) in cash	<b>(348,679)</b>	<b>(1,706,558)</b>	<b>(487,910)</b>	<b>(2,676,083)</b>
Cash and short term investments, beginning of period	<b>20,922,156</b>	22,657,421	<b>21,061,387</b>	23,626,946
Cash and short term investments, end of period	<b>\$ 20,573,477</b>	\$ 20,950,863	<b>\$ 20,573,477</b>	\$ 20,950,863
Interest paid during the period	\$ -	\$ 12,596	\$ -	\$ 17,065
Taxes paid during the period	\$ -	\$ -	\$ -	\$ -

See accompanying notes to the financial statements

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## Unaudited

*(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.

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

Basis of presentation - Except as noted below, the unaudited interim financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) using the same accounting policies as set out in note 2 to the audited financial statements for the year ended December 31, 2008. Certain information or disclosures normally required to be included in notes to annual audited financial statements have been condensed or omitted. The unaudited interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2008.

The timely preparation of financial statements requires that management make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from estimates.

In the opinion of management, these financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

### Note 3: Changes in and Future Accounting Policies

(a) The Canadian Accounting Standards Board (AcSB) has confirmed that the use of International Financial Reporting Standards (IFRS) will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises. These include listed companies and other profit-oriented enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company is currently evaluating the impact of adopting IFRS.

- (b) The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, Goodwill and Intangible Assets, replaced Section 3062, Goodwill and Other Intangible Assets, and resulted in the withdrawal of Section 3450, Research and Development Costs, and amendments to Accounting Guideline (AcG) 11, Enterprises in the Development Stage and Section 1000, Financial Statement Concepts. The standard reduces the differences with IFRS in the accounting for intangible assets and results in closer alignment with U.S. GAAP. The objectives of Section 3064 are to reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition; and clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing as assets items that do not meet the definition and recognition criteria is eliminated. The standard also provides guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The adoption of this standard on January 1, 2009 did not have an impact on the Company's financial statements.
- (c) On January 20, 2009 the CICA Emerging Issues Committee (EIC) issued EIC-173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. Under EIC-173, an entity's own credit risk and the credit risk of the counterparty with which it conducts transactions should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. The Company adopted the requirements of EIC-173 effective January 1, 2009. The adoption of this standard did not have an impact on the Company's financial statements.
- (d) On June 17, 2009, the Accounting Standards Board of Canada ("AcSB") released Embedded Derivatives on Reclassification of Financial Assets, for amendments to Section 3855, Financial Instruments – Recognition and Measurement. The amendment indicates that contracts with embedded derivatives cannot be reclassified out of the held for trading category if the embedded derivative cannot be fair valued. The amendments to this standard were effective for the Company on July 1, 2009 and its adoption did not have a material impact upon the financial statements.
- (e) In June 2009, the AcSB amended Section 3862, Financial Instruments – Disclosures, to converge with Improving Disclosures about Financial Instruments (Amendments to IFRS 7). The amendments expand the disclosures required in respect of recognized fair value measurements and clarify existing principles for disclosures about the liquidity risk associated with financial instruments. This standard will be effective for the annual period ending Dec. 31, 2009.
- (f) In December 2008, the CICA issued Handbook Section 1582 "Business Combinations," which will replace CICA Handbook Section 1581 of the same name. Under this guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of the exchange. Currently, the purchase price used is based on the market price of the shares for a reasonable period before and after the date of the acquisition is agreed upon and announced. This new standard

generally requires all acquisition costs to be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and re-measured at fair value through earnings each period until settled. Currently, only contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill is required to be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from non-current assets in the purchase price allocation. CICA Handbook Section 1582 is effective January 1, 2011.

#### Note 4: Cash and Short Term Investments

The Company has cash and short term investments of \$20,573,477 (December 2008 - \$21,061,387) available to fund future opportunities and operations.

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

During the three months ended September 30, 2009 the Company replaced all the letters of credit that were securing the Northwest Territories work commitments and the deposit with the Energy Resources Conservation Board with cash deposits as the costs of the letters of credit were exceeding the interest earned on the term deposits. The Company now has refundable deposits of \$349,929 (September 2008 - \$904,369) of which \$21,804 (September 2008 – \$21,799) is a deposit with the Energy Resources Conservation Board and the balance relates to work commitments on the Northwest Territories license. Under the terms of the license the Company has a deposit of \$328,125 (September 2008 - \$882,570) to cover the work commitments made by the Company on the license. To the extent eligible expenditures are incurred by the Company the deposit 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 deposit relating to the unexpended work commitment. This forfeiture would completely satisfy all obligations on the license. To meet the conditions of the license the Company, along with partners, is required to drill a well on the license before the expiry of period 1 (May 10, 2010) and, before the end of period 2 (May 10, 2014), 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.

##### Deposits

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 2008	Additions & Adjustments	Disposals	Impairment	September 30, 2009
Petroleum and natural gas properties	\$ 11,479,939	(15,301)	-	-	\$ 11,464,638
Accumulated depletion	\$ -	-	-	-	\$ -
Net carrying value P&NG properties	\$ 11,479,939	(15,301)	-	-	\$ 11,464,638

	December 31 2007	Additions & Adjustments	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	\$ 16,794,866	4,756,829	(2,217,472)	(7,854,284)	\$ 11,479,939

During the nine months ended September 30, 2009 the Company received credits from the operator on the overspent Northwest Territories drilling costs and incurred land retention costs relating to the Western Canadian land holdings.

**Unproven oil and gas properties excluded from depletion**

	Nine months ended September 30 2009	Year ended December 31 2008
Northwest Territories	\$ 11,445,955	\$ 11,479,939
Western Canada	18,683	-
Total	\$ 11,464,638	\$ 11,479,939

**Capitalized General and Administrative costs**

	Nine months ended September 30 2009	Year ended December 31 2008
Western Canada	\$ -	\$ 856,978
Total	\$ -	\$ 856,978

## Note 8: Income Taxes

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

	September 30, 2009	December 31, 2008
Future tax liabilities		
Oil and gas assets in excess of tax balances	\$ 792,290	\$ 648,858
Future tax assets		
Share issue costs and other	(163,518)	(291,936)
Loss carry forward	(644,749)	(543,860)
	<u>(808,267)</u>	<u>(835,796)</u>
Net future income tax asset	<u>(15,977)</u>	<u>(186,938)</u>
Valuation allowance	15,977	186,938
	<u>\$ -</u>	<u>\$ -</u>

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

	Nine months ended September 30, 2009	Year ended December 31, 2008
Loss before income taxes	\$ (1,280,523)	\$ (8,741,087)
Combined federal and provincial income tax rate	29.94%	29.94%
Computed income tax recovery	\$ (383,389)	\$ (2,617,081)
Decrease in recovery resulting from:		
Stock based compensation	52,748	85,255
Expired losses	-	75,479
Tax adjustment from rate change	-	182,273
Change in valuation allowance	15,977	186,938
Other adjustments	267,699	174,657
Future income tax recovery	<u>\$ (46,965)</u>	<u>\$ (1,912,479)</u>

The Company currently has tax pools of \$9,961,126 and non capital losses of \$2,153,471.

Expiration dates of the non capital losses:

2009	\$ 191,304
2013	419,119
2014	215,070
2025	261,077
2027	62,499
<u>2028</u>	<u>1,004,402</u>
<u>Total</u>	<u>\$2,153,471</u>

## Note 9: Share Capital

- a) Authorized:  
 Unlimited number of common shares  
 Unlimited number of preferred shares
- b) Voting common shares issued:

	Number	Amount
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
Tax benefits renounced to subscribers		(46,965)
Balance September 30, 2009	109,789,946	\$ 49,818,039
Purchase warrants issued:		
Balance 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
Expired	(26,159,444)	-
Transfer to contributed surplus		(8,623,448)
Balance September 30, 2009	-	-
Share capital, September 30, 2009		\$ 49,818,039

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 all expired on March 2, 2009.

- 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.

On April 21, 2009 the Company granted 2,875,000 stock options to its directors, officers and employees.

These options expire April 22, 2014, are exercisable at a price of \$0.20 per share and vest in equal installments over the next three years.

	Number of Options	Weighted Average price
Balance December 31, 2007	6,316,200	0.44
Forfeited	(1,125,000)	0.50
Granted	400,000	0.65
Balance December 31, 2008	5,591,200	0.45
Granted	2,875,000	0.20
Expired	(81,200)	0.24
Forfeited	(741,667)	0.40
Balance September 30, 2009	7,643,333	0.36

The following table summarizes information about the stock options outstanding at September 30, 2009:

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		
\$ 0.39	3,200,000	2.17	\$ 0.39	3,200,000	\$ 0.39		
0.50	1,800,000	2.93	0.50	1,200,000	0.50		
0.61	10,000	3.07	0.61	3,333	0.61		
0.65	133,333	3.47	0.65	133,333	0.65		
0.20	2,500,000	4.56	0.20	-	0.20		
\$ 0.20-0.65	7,643,333	3.15	\$ 0.359	4,536,666	\$ 0.43		

A Black-Scholes option pricing model, with the following weighted average assumptions for the three months ended June 30, 2009, 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 (%)	0.25
Expected lives (years)	5.0
Expected volatility (%)	119
Dividend per share	0.00

The grant date weighted average fair value of options issued in the quarter ended June 30, 2009 was \$0.14 per option. There were no options granted during the three months ended September 30, 2009.

#### 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:

	September 30, 2009	Change %	December 31, 2008
Total shareholders' equity	\$ 31,801,757	(3.3)	\$ 32,906,101
Total shareholders' equity as a % of total capital	100%		100%
Short and long term debt	-	0.0	-
Total debt as a % of total capital	0%		0%
Total capital	<u>\$ 31,801,757</u>		<u>\$ 32,906,101</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 the established stock option plan with such share issuances to occur from treasury.

#### Note 10: Related Party Transactions

There were no related party transactions during the three or nine months ended September 30, 2009. During the nine months ended September 30, 2008 there was a finders' fee of \$12,000 paid to a relative of an officer and director and \$420 paid to relatives of officers and/or directors of the company for secretarial services. All amounts were in the normal course of business and under the same terms and conditions as unrelated parties.

#### Note 11: Contingencies and Commitments

The Company has a liability of \$328,125 (December 31, 2008 - \$1,002,672) for its share of refundable work deposits on a prospect in the Northwest Territories (see note 5). The Government of Canada holds cash deposits as security for this liability.

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 at the same terms and conditions of the relevant issue.

#### Note 12: Financial Instruments

Fair Value of Financial Instruments - The Company's financial instruments as at September 30, 2009 include cash and short-term investments, accounts receivable and accounts payable. The fair value of cash and short

term investments, accounts receivable and accounts payable approximate their carrying amounts due to their short terms to maturity.

Interest Rate Risk - 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 and short term investments. The Company does not hedge its exposure to interest rate risk.

If interest rates throughout the quarter had been 100 basis points lower (higher) then net loss would have been approximately \$52,738 higher (\$52,738 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.