

AUDITORS' REPORT

To the Shareholders of Pacific Rodera Energy Inc.

We have audited the balance sheets of Pacific Rodera Energy Inc. as at December 31, 2009 and 2008 and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 Corporation as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Calgary, Canada
April 9, 2010

Chartered Accountants

Balance Sheets

| Assets | December 31, 2009 | December 31, 2008 |
|---|--------------------------|--------------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 17,099,687 | \$ 19,593,564 |
| Short-term investments (Note 4) | 3,039,221 | 1,467,823 |
| Accounts receivable | 40,319 | 101,643 |
| Prepaid expenses | 104,393 | 124,684 |
| | 20,283,620 | 21,287,714 |
| Cash deposits (Note 5) | 389,823 | 962,301 |
| Furniture and fixtures (Note 7) | 47,354 | 51,376 |
| Petroleum and natural gas properties (Note 6) | 7,206,305 | 11,479,939 |
| | \$ 27,927,102 | \$ 33,781,330 |
| Liabilities | | |
| <i>Current liabilities</i> | | |
| Accounts payable and accrued liabilities | \$ 1,106,952 | \$ 875,229 |
| | 1,106,952 | 875,229 |
| Shareholders' equity | | |
| Share capital (Note 9) | 49,818,039 | 49,865,004 |
| Warrant equity (Note 9) | - | 8,623,448 |
| Contributed surplus (Note 9) | 13,959,295 | 5,090,610 |
| Deficit | (36,957,184) | (30,672,961) |
| | 26,820,150 | 32,906,101 |
| | \$ 27,927,102 | \$ 33,781,330 |

See accompanying notes to the financial statements

Commitments [Notes 5 and 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

| | Year ended December 31, 2009 | Year ended December 31, 2008 |
|---|---|---|
| Revenue | | |
| Oil and gas | \$ - | \$ 477,211 |
| Royalties net of royalty tax credit | - | (62,492) |
| | - | 414,719 |
| Expenses | | |
| Production and operating | - | 96,672 |
| General and administration | 1,710,173 | 1,434,148 |
| Interest | - | 26,841 |
| Depletion, amortization and accretion | 19,674 | 241,134 |
| Impairment of petroleum & natural gas properties (Note 6) | 4,335,906 | 7,854,284 |
| Reclamation costs | 264,875 | - |
| Stock based compensation | 245,237 | 284,752 |
| | 6,575,865 | 9,937,831 |
| | (6,575,865) | (9,523,112) |
| Interest and other income | 244,677 | 782,028 |
| Loss before income taxes | (6,331,188) | (8,741,087) |
| Future income tax recovery (Note 8) | 46,965 | 1,912,479 |
| Net loss and comprehensive loss | (6,284,223) | (6,828,608) |
| Deficit, beginning of year | (30,672,961) | (23,844,353) |
| Deficit, end of year | \$ (36,957,184) | \$ (30,672,961) |
| Loss per share – basic and diluted | \$ (0.06) | \$ (0.06) |
| Weighted average shares outstanding | 109,789,946 | 109,653,802 |

See accompanying notes to the financial statements

Statements of Cash Flows

| | Year ended December 31, 2009 | Year ended December 31, 2008 |
|--|---------------------------------|---------------------------------|
| Cash provided by (used in): | | |
| Operations | | |
| Net income | \$ (6,284,223) | \$ (6,828,608) |
| <i>Items not involving cash</i> | | |
| Depletion, amortization and accretion | 19,674 | 241,134 |
| Stock based compensation | 245,237 | 284,752 |
| Future income tax recovery | (46,965) | (1,912,479) |
| Impairment loss on petroleum & natural gas properties | 4,335,906 | 7,854,284 |
| | (1,730,371) | (360,917) |
| Change in non cash working capital related to operations | (2,576) | (200,090) |
| | (1,732,947) | (561,007) |
| Financing | | |
| Issue of shares | - | 163,865 |
| Warrants issued with shares | - | 18,135 |
| | - | 182,000 |
| Investing activities | | |
| Exploration and development expenditures | (62,272) | (4,121,171) |
| Short term investments | (1,571,398) | (1,467,823) |
| Capitalized G&A costs | - | (856,978) |
| Redemption of security deposits | 572,478 | 40,371 |
| Asset disposal | - | 2,200,000 |
| Equipment | (15,652) | (21,997) |
| Change in non cash working capital | 315,914 | 573,223 |
| | (760,930) | (3,654,375) |
| Decrease in cash | (2,493,877) | (4,033,382) |
| Cash and cash equivalents, beginning of year | 19,593,564 | 23,626,946 |
| Cash and cash equivalents, end of year | \$ 17,099,687 | \$ 19,953,564 |
| Interest paid during the year | \$ - | \$ 26,841 |
| Taxes paid during the year | \$ - | \$ - |

See accompanying notes to the financial statements

NOTES TO FINANCIAL STATEMENTS

(Tabular amounts in thousands except per share amounts)

Note 1: Basis of Presentation

Pacific Roder 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 Roder Ventures Inc. to Pacific Roder 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

- a) Cash and cash equivalents - Cash and cash equivalents consist of balances with banks and investments in highly liquid short-term deposits with a maturity date of less than ninety days.
- b) Short-term investments – Short-term investments include money market instruments with terms that are terms greater than three months to maturity and are recorded at amortized cost.
- c) Petroleum and Natural Gas Properties – Pacific Roder 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-step test performed at least quarterly:

- 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. The Company assesses all items classified as unproved property on a quarterly basis for possible impairment or reduction in value. The Company assesses properties on an individual basis or as a group if properties are individually insignificant. The assessment includes consideration of the following factors, among others: land relinquishment; intent to drill; remaining lease term; geological and geophysical evaluations; drilling results and activity; the assignment of proved reserves; and the economic viability of development if proved reserves are assigned. During any period in which these factors indicate an impairment, the related exploration costs incurred are charged to the statement of operations until such time that the Company has proven reserves, and then costs will be transferred to the full cost pool and are then subject to depletion.

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.
- The Black-Scholes option valuation model was developed for use in estimating the fair value of options. This option valuation model requires the input of highly subjective assumptions including the expected volatility of the Company's share price. Because changes in the subjective input assumptions can

materially affect the calculated fair value, such value is subject to measurement uncertainty

- j) 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 9)

- k) 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.

- l) 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.
 - a) Held for trading - Held for trading financial instruments are financial assets or financial liabilities that are purchased with the intention of selling or repurchasing in the near term. Any financial instrument can be designated as held for trading as long as its fair value can be reliably measured. A derivative is classified as held for trading unless designated as and considered an effective hedge. Held for trading instruments are recorded at fair value with any subsequent changes in the fair value recognized as realized or unrealized gains or losses for the year. All of the Company’s cash and cash equivalents are designated as held-for trading investments.
 - b) Held-to-maturity - Held-to-maturity investments consist of long term investments that the Company has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method. Any gains or losses arising from the sale of a held-to-maturity investment are included in earnings. All of the Company’s short-term investments are designated as held-to-maturity investments.
 - c) Other financial liabilities - Items classified as other financial liabilities would be accounted for at amortized cost using the effective interest method. Any gains or losses in the realization of other

financial liabilities are included in earnings.

d) Loans and receivables - Items classified as loans and receivables in the Company's financial statements are accounted for at amortized cost using the effective interest method. Any gains or losses on the realization of loans and receivables are included in earnings. Currently the Company has classified its accounts receivable as loans and receivables.

e) Available-for-sale - Available-for-sale assets are those financial assets that are not classified as held for trading, held-to-maturity or loans and receivables. Available-for-sale instruments are recorded at fair value. Any gains or losses arising from the change in fair value is recorded in OCI and upon the sale of the instrument or other-than-temporary impairment, the cumulative gain or loss is included in earnings.

Note 3: Changes in and Future Accounting Policies

(a) 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.

(b) 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.

- (c) 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.
- (d) 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 was effective for the annual period ending Dec. 31, 2009, and is presented in Note 12.
- (e) 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.
- (f) 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.

Note 4: Investments

Short-term investments – The short term investments consist of GICs with maturity dates greater than 90 days and are yielding between 1.15% and 3.5% (2008 between 2.65% and 2.75%)

Note 5: Northwest Territories Licenses and Other Deposits

During the year ended December 31, 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 \$389,823 (December 2008 - \$962,301) of which \$49,230 (December 2008 - \$21,799) is a deposit with the Energy Resources Conservation Board, \$12,468 (December 2008 - nil) is a deposit on new office space 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 (December 2008 - \$940,502) to cover the work commitments made by the Company on the license. To the extent eligible expenditures are incurred 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. During 2009 the expiry periods were extended by one year. With this extension the Company, along with partners, is required to drill a well on the license before the expiry of period 1 (now May 9, 2011) and, before the end of period 2 (now May 9, 2015), 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.

Northwest Territories Deposits

| License | Work Deposit | Commitment | Expiry Date Period 1 | Expiry Date Period 2 |
|---------|--------------|-------------|----------------------|----------------------|
| EL 441 | \$ 328,125 | \$1,312,500 | May 9, 2011 | May 9, 2015 |

Note 6: Petroleum and Natural Gas Properties

| | December 31 2008 | Additions & Adjustments | Disposals | Impairment | December 31, 2009 |
|---|---------------------|----------------------------|-----------|-------------|----------------------|
| Petroleum and natural gas properties(P&NG) | \$ 11,479,939 | 62,272 | - | (4,335,906) | \$ 7,206,305 |
| Accumulated depletion | - | - | - | - | - |
| Net carrying value P&NG properties | \$ 11,479,939 | 62,272 | - | (4,335,906) | \$ 7,206,305 |

| | 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 |

The Company is surrendering all the Tulitia lands in the Northwest Territories and as a result is impairing the value of this property. The Company has also impaired the balance of EL-423 as it believes it to be non-prospective.

| <u>Impairment</u> | 2009 | 2008 |
|--------------------------|--------------|--------------|
| EL-423 | \$ 342,938 | \$ 4,109,470 |
| Tulitia | 3,992,968 | - |
| Western Canada | - | 3,744,814 |
| Total | \$ 4,335,906 | \$ 7,854,284 |

Unproven oil and gas properties excluded from depletion

| | Year ended December 31 2009 | Year ended December 31 2008 |
|-----------------------|-----------------------------------|-----------------------------------|
| Northwest Territories | \$ 7,176,555 | \$ 11,479,939 |
| Western Canada | 29,750 | - |
| Total | \$ 7,206,305 | \$ 11,479,939 |

Capitalized General and Administrative costs

| | Year ended December 31 2009 | Year ended December 31 2008 |
|----------------|-----------------------------------|-----------------------------------|
| Western Canada | \$ - | \$ 856,978 |
| Total | \$ - | \$ 856,978 |

Note 7: Furniture and Fixtures

| | December 31 2009 | December 31, 2008 |
|-------------------------------|------------------|-------------------|
| Furniture and fixtures - cost | \$ 124,054 | \$ 108,402 |
| Accumulated depreciation | 76,700 | 57,026 |
| Furniture and fixtures - net | <u>\$ 47,354</u> | <u>\$ 51,376</u> |

Note 8: Income Taxes

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

| | December 31, 2009 | December 31, 2008 |
|--|--------------------|-------------------|
| Future tax liabilities (assets) | | |
| Oil and gas assets in excess of tax balances | \$ (489,075) | \$ 648,858 |
| Future tax liabilities (assets) | | |
| Share issue costs and other | (136,538) | (291,936) |
| Loss carry forward | (983,518) | (543,860) |
| | <u>(1,120,056)</u> | <u>(835,796)</u> |
| Net future income tax liabilities (assets) | <u>(1,609,131)</u> | <u>(186,938)</u> |
| Valuation allowance | 1,609,131 | 186,938 |
| | <u>\$ -</u> | <u>\$ -</u> |

- b) Reconciliation of income taxes calculated at the Canadian statutory rate of 29% with actual income taxes:

| | Year ended December 31, 2009 | Year ended December 31, 2008 |
|---|---------------------------------|---------------------------------|
| Loss before income taxes | \$ (6,331,188) | \$ (8,741,087) |
| Combined federal and provincial income tax rate | 29% | 29.94% |
| Computed income tax recovery | \$ (1,836,045) | \$ (2,617,081) |
| Decrease in recovery resulting from: | | |
| Stock based compensation | 71,119 | 85,255 |
| Other non-deductible expenses | 12,590 | |
| Expired losses | 47,826 | 75,479 |
| Tax adjustment from rate change | 234,798 | 182,273 |
| Change in valuation allowance | 1,422,733 | 186,938 |
| Other adjustments | 14 | 174,657 |
| Future income tax recovery | <u>\$ (46,965)</u> | <u>\$ (1,912,479)</u> |

The Company currently has tax pools of \$9,756,112 and non capital losses of \$3,934,073.

Expiration dates of the non capital losses:

| | |
|--------------|---------------------|
| 2013 | \$ 419,119 |
| 2014 | 215,070 |
| 2025 | 261,077 |
| 2027 | 62,499 |
| 2028 | 1,004,402 |
| <u>2029</u> | <u>1,971,906</u> |
| <u>Total</u> | <u>\$ 3,934,073</u> |

Note 9: Share Capital

a) Authorized:

Unlimited number of common shares with no nominal or par value

Unlimited number of preferred shares with no nominal or par value

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 | <u>109,789,946</u> | <u>\$ 49,865,004</u> |
| Tax benefits renounced to subscribers | | (46,965) |
| Balance December 31, 2009 | <u>109,789,946</u> | <u>\$ 49,818,039</u> |
| 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 | <u>26,159,444</u> | <u>8,623,448</u> |
| Expired | (26,159,444) | - |
| Transfer to contributed surplus | | (8,623,448) |
| Balance December 31, 2009 | <u>-</u> | <u>-</u> |
| Share capital, December 31, 2009 | | <u>\$ 49,818,039</u> |

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) Contributed Surplus

| | Contributed Surplus |
|---------------------------|---------------------|
| Balance December 31, 2007 | \$ 4,805,858 |
| Stock Based compensation | 284,752 |
| Balance December 31, 2008 | 5,090,610 |
| Stock Based compensation | 245,237 |
| Expiry of warrants | 8,623,448 |
| Balance December 31, 2009 | \$ 13,959,295 |

d) 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. The grant date weighted average fair value of options issued in the year ended December 31, 2009 was \$0.14 per option.

| | Number of options | Weighted average exercise 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 | (875,000) | 0.34 |
| Balance December 31, 2009 | 7,510,000 | \$ 0.35 |

The following table summarizes information about the stock options outstanding at December 31, 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 | |
| \$ 0.20 | 2,500,000 | 4.31 | \$ 0.20 | - | \$ 0.20 | |
| 0.39 | 3,200,000 | 1.92 | 0.39 | 3,200,000 | 0.39 | |
| 0.50 | 1,800,000 | 2.68 | 0.50 | 1,200,000 | 0.50 | |
| 0.61 | 10,000 | 2.82 | 0.61 | 6,667 | 0.61 | |
| \$ 0.20-0.61 | 7,510,000 | 2.90 | \$ 0.35 | 4,406,667 | \$ 0.42 | |

A Black-Scholes option pricing model, with the following weighted average assumptions for the year ended December 31, 2009 and December 31, 2008, were used to estimate the fair value of options on the date of the grant, for the inclusion as stock based compensation expense:

| | 2009 | 2008 |
|-------------------------|------|------|
| Risk free interest rate | 0.25 | 3.8 |
| Expected lives (years) | 5 | 5 |
| Expected volatility (%) | 119% | 75% |
| Dividends per share | 0 | 0 |

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, 2009 | Change % | December 31, 2008 |
|--|-------------------|----------|-------------------|
| Total shareholders' equity | \$ 26,820,150 | (18.5) | \$ 32,906,101 |
| Total shareholders' equity as a % of total capital | 100% | | 100% |
| Short and long term debt | - | - | - |
| Total debt as a % of total capital | 0% | | 0% |
| Total capital | \$ 26,820,150 | | \$ 32,906,101 |

The Company intends to use its capital to finance future exploitation opportunities as well as fund future acquisition opportunities in the international oil and gas arena. 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 year ended December 31, 2009. During the year ended December 31, 2008 there was a finders' fee of \$12,000 paid to a relative of an officer and director and \$1,200 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: Commitments

The Company has a commitment of \$328,125 (December 31, 2008 - \$940,502) 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.

As at December 31, 2009 the Company had a lease for office premises for a period of 2 years and 7 months commencing May 1, 2008. The lease has an early termination clause that could terminate the lease as early as December 31, 2009. The Company terminated the lease effective January 31, 2010.

Subsequent to the end of the year the Company signed a lease for new office space through to January 30, 2013. The company is committed to payments of \$41,055 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 recognized on the balance sheet consist of cash and cash equivalents, accounts receivable, short term investments, cash deposits, long term investments and accounts payable ("financial instruments"). The fair value of these instruments, excluding the long term investments approximate their carrying amounts due to their short terms to maturity. All of the companies' cash and cash equivalents, short term investments and long term investments are transacted in active markets. The Company classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on

observable market data.

Pacific Rodera's cash and cash equivalents, cash deposits and short term investments have been assessed on the fair value hierarchy described above. The cash and cash equivalents, cash deposits and short term investments are classified as Level 1.

Interest Rate Risk - The Company has exposure to interest rate risk as it relates to its 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 year had been 100 basis points lower (higher) then net loss would have been approximately \$212,303 higher (\$212,303 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 access to sufficient capital to meet current spending forecasts. As Pacific Rodera signs agreements and starts operations the Company may have to source for additional capital.

Note 13: Subsequent Events

Subsequent to December 31, 2009 the Company signed a lease on new office space resulting in an annual reduction in base rent of \$122,361.

Note 14: Comparative Figures

Certain comparative figures have been reclassified to conform to the current period's financial statement presentation.