PanTerra Resource Corp.

FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

To the Shareholders of PanTerra Resource Corp.:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities and for approving the financial information included in the financial statements. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and are available to meet periodically and separately with, the Board and management to discuss their audit findings.

"signed"
Fred Rumak
President & CEO

"signed"
Ron Sparrow
CFO

Auditors’ Report

To the Shareholders of **PanTerra Resource Corp.**

We have audited the balance sheets of **PanTerra Resource Corp.** as at December 31, 2009 and 2008 and the statements of loss, comprehensive loss and deficit and cash flows for the years 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 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 Company 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.

Meyers Norris Penny LLP

Calgary, Alberta

March 29, 2010

Chartered Accountants

MNP

PANTERRA RESOURCE CORP.
BALANCE SHEETS
As at December 31

	2009	2008
ASSETS		
Current		
Cash and cash equivalents (note 4)	$ 315,170	$ 3,205,158
Accounts receivable	177,482	39,638
Deposits for land leases (note 5)	183,541	183,541
Prepaid expenses	94,438	42,101
	770,631	3,470,438
Property and equipment (note 5)	17,569,652	11,878,163
	$ 18,340,283	$ 15,348,601
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 181,296	$ 165,130
Asset retirement obligation (note 7)	1,128,179	320,175
	1,309,475	485,305
Going concern (note 2)		
Commitments (note 8)		
Subsequent event (note 14)		
SHAREHOLDERS' EQUITY		
Share capital (note 9)	24,843,300	22,949,402
Contributed surplus (note 9e)	3,323,005	1,975,728
Deficit	(11,135,497)	(10,061,834)
	17,030,808	14,863,296
	$ 18,340,283	$ 15,348,601

On behalf of the board

Fred Rumak Director *David Halpin* Director

See accompanying notes to the financial statements

PANTERRA RESOURCE CORP.
STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT
Years ended December 31,

	2009	2008
REVENUE		
Oil and gas revenue	$ 334,899	$ -
Royalties	(38,826)	-
Interest	8,271	69,642
	304,344	69,642
EXPENSES		
Operating	284,138	-
Transportation	42,185	-
Depletion, depreciation and accretion	231,943	40,449
Stock-based compensation	435,818	749,087
Consulting fees	407,414	449,155
Office and administration	261,835	373,393
Professional fees	86,738	232,615
Investor communications	62,551	34,362
Transfer agent fees	14,234	8,903
Interest and bank charges	25,131	1,141
Overhead recovery	(18,599)	(15,381)
	1,833,388	1,873,724
OTHER INCOME		
Foreign exchange gain	20,351	-
LOSS BEFORE INCOME TAXES	(1,508,693)	(1,804,082)
Future income tax recovery (note 6)	435,029	474,846
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(1,073,665)	(1,329,236)
DEFICIT, BEGINNING OF YEAR	(10,061,834)	(8,732,598)
DEFICIT, END OF YEAR	$ (11,135,499)	$ (10,061,834)
Net (loss) per share		
- basic	$ (0.11)	$ (0.17)
- diluted	(0.11)	(0.17)
Weighted average number of common shares (note 9)		
- basic	10,014,683	7,848,265
- diluted	10,014,683	7,848,265

See accompanying notes to the financial statements

PANTERRA RESOURCE CORP.
STATEMENTS OF CASH FLOWS
Years ended December 31,

	2009	2008
CASH FLOWS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net loss for the year	$ (1,073,665)	$ (1,329,236)
Add items not affecting cash		
Stock-based compensation	435,818	749,087
Future income tax recovery	(435,029)	(474,846)
Depletion, depreciation and accretion	231,943	40,449
	(840,934)	(1,014,546)
Net changes in non-cash working capital items:		
Accounts receivable	(137,844)	35,425
Prepaid expenses	(52,337)	(5,040)
Accounts payable and accrued liabilities	34,280	(219,557)
	(155,901)	(189,172)
	(996,835)	(1,203,718)
INVESTING ACTIVITIES		
Additions to property and equipment	(1,874,322)	(843,594)
Refund of land deposits	237,591	235,632
Land deposits remitted	(237,591)	(183,541)
Changes in non-cash working capital	(18,114)	(202,506)
	(1,892,436)	(994,009)
FINANCING ACTIVITIES		
Shares issued on exercise of options	-	219,100
Private placement proceeds	-	5,000,200
Share issue costs	(718)	(583,633)
	(718)	4,635,667
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(2,889,989)	2,437,940
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	3,205,158	767,218
CASH & CASH EQUIVALENTS, END OF YEAR	$ 315,169	$ 3,205,158
CASH AND EQUIVALENTS IS COMPRISED OF:		
Cash in bank	$ 15,194	$ 256,153
Term deposits (note 4)	299,976	2,949,005
	$ 315,170	$ 3,205,158

See accompanying notes to the financial statements

NOTE 1. NATURE OF OPERATIONS

PanTerra Resource Corp. (the "Company" or "PanTerra") is an oil & gas exploration and production company with producing properties in Alberta and a shale gas resource play in Saskatchewan. The Company is headquartered in Calgary and is an Alberta-based reporting entity whose shares are listed on the TSX Venture Exchange under the symbol: V.PRC. The Company has drilled a number of wells in Saskatchewan and is in the process of evaluating and testing those wells. The Saskatchewan properties are in the development stage and "gas resources" have been identified. The Company is working to have those "gas resources" recognized as "gas reserves". PanTerra recently purchased some producing properties in Alberta and has oil & gas production effective September 1, 2009.

Effective October 13, 2009 PanTerra shares were consolidated on a one for ten basis. Accordingly, the comparative number of shares, and per share amounts have been retroactively adjusted to reflect the one for ten consolidation.

NOTE 2. BASIS OF PRESENTATION

These financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The Company has incurred recurring losses and has not generated profitable operations to date. As of December 31, 2009, the Company has working capital of $589,335 (2008 – $3,305,308), an accumulated deficit of $11,135,497 (2008 – $10,061,834) and shareholders' equity of $17,030,808 (2008 – $14,863,296). The continuation of the Company as a going concern is dependent upon the ability of the Company to obtain necessary equity financing to continue operations, and to attain profitable operations. The outcome of these matters cannot be predicted at the present time. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

International Financial Reporting Standards

In February 2008, the AcSB confirmed that the transition date to International Financial Reporting Standards ("IFRS") from Canadian GAAP will be January 1, 2011 for publicly accountable enterprises. The Company will be required to report its results in accordance with IFRS starting in 2011, with comparative IFRS information for the 2010 fiscal year.

PanTerra is progressing with its preparation for the changeover to IFRS. The Company has completed its assessment of IFRS accounting policies and is reviewing its elections with its auditors. The implementation phase, which includes updating its data systems, internal controls over financial reporting and business activities, such as financing and compensation arrangements, is planned for the first half of 2010.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting policies observed in the preparation of the financial statements are summarized below. These policies are in accordance with GAAP.

Capital Disclosures

The Company discloses its objectives, policies and processes for managing and quantitative data about what the Company manages as capital. These disclosures are based on information used internally by the Company's management.

Revenue Recognition

Interest income from investments, such as term deposits, is recognized on a time proportionate basis. Revenue from the sale of petroleum and natural gas is recorded when title passes to an external party.

Financial Instruments, hedges and comprehensive income

The accounting standards for financial instruments require that all financial assets and liabilities, including derivatives, are classified as: held for trading, held to maturity, available for sale assets, loans and receivables or other financial liabilities. Additional disclosure for financial instruments is set out in note 10.

Financial assets and financial liabilities "held for trading" are measured at fair value with changes in those fair values recognized in net income. Financial assets "available for sale" are measured at fair value, without any deduction for transaction costs incurred on sale or other disposal with changes in those fair values measured in other comprehensive income. Financial assets "held to maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. The methods used by the Company in determining the fair value of financial instruments is unchanged as a result of implementing the new standard. Transactions to purchase or sell these items are recorded on the trade date, and transaction costs are immediately recognized as income.

Cash and cash equivalents are classified as "held for trading", deposits for land leases are classified as "held to maturity", accounts receivable are classified as "loans and receivables", and accounts payable and accrued liabilities are designated as "other liabilities". Transactions to purchase or sell these items are recorded on the trade date, and transaction costs are immediately recognized as income.

The fair values of the Company's cash and cash equivalents, accounts receivable and accounts payable are estimated to approximate their carrying values due primarily to the immediate or short-term maturity of these financial instruments. Management does not believe the Company is exposed to significant credit, currency or interest rate risks.

Accounting standards for hedges specifies the criteria under which hedge accounting can be applied and that any gains or losses resulting from ineffective hedges are recognized in net income immediately. Changes in hedging derivatives are recognized in net income or other comprehensive income depending on the nature of the hedging relationship. During the year the Company has not designated any financial transactions as hedges.

Comprehensive Income

Comprehensive income is the change in equity of the Company during the period as a result of transactions and other events and circumstances from non-owner sources. There was no other comprehensive loss during the years ended December 31, 2009 and 2008; accordingly, comprehensive loss is equal to net loss.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents include cash deposits in bank accounts and investments with original maturities of three months or less.

Property and Equipment

The Company follows the full cost method of accounting for oil and natural gas operations whereby all costs relating to the acquisition, exploration and development of oil and natural gas reserves, including asset retirement costs, are initially capitalized in a single Canadian cost centre. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, related production equipment costs, and overhead charges directly related to acquisition, exploration and development activities.

Capitalized costs, excluding costs related to unproven properties, will be depleted using the unit-of-production method based on estimated proven oil and natural gas reserves before deduction of royalties as determined by independent petroleum engineers. Petroleum and natural gas reserves and production are converted to equivalent barrels of oil using a ratio of six thousand cubic feet of natural gas to one barrel of oil.

Costs of acquiring and evaluating unproven 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. Until proved reserves are assigned, costs in the pre-development stage which are determined to not be recoverable are written off.

Proceeds from the sale of petroleum and natural gas properties will be applied against capitalized costs, with no gain or loss recognized, unless such a sale would result in a greater than 20% change in the depletion and depreciation rate.

When proved reserves are assigned, associated capitalized costs will be assessed for possible impairment using a two stage ceiling test. In the first stage undiscounted future cash flows are calculated based on independent petroleum engineer's best estimate of forward indexed prices applied to estimated future production of proved reserves plus anticipated proceeds from the sale of undeveloped properties, less estimated future operating costs, royalties and future capital development costs. When the carrying amount of a cost centre is not recoverable, the second stage of the process will determine the impairment whereby the cost centre would be written down to its fair value. The second stage requires the calculation of discounted future cash flows from proved plus probable reserves using the Company's risk free interest rate plus the cost of undeveloped land, net of any impairment. The fair value is estimated using accepted present value techniques, which incorporate risks and other uncertainties when determining expected cash flows.

Depletion was calculated on the Company's petroleum and natural gas property and equipment on a unit of production basis and depreciation was recorded on automotive, office equipment and furniture.

Automotive, office equipment and furniture are carried at cost and amortized on a straight line basis over the estimated service lives of three to ten years.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Joint Interest Activities

The Company's exploration activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities. Where the Company enters into a joint venture agreement with partners and is the operator, the Company recovers a portion of its overhead costs from the non-operating partners.

Asset Retirement Obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred or when a reasonable estimate of the fair value can be made, and records a corresponding increase in the carrying value of the related long-lived asset. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimate on a site-by-site basis. The liability is subsequently adjusted for the passage of time, which is recognized as accretion expense into income. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Actual costs incurred upon settlement of the asset retirement obligations are charged against the asset retirement obligation to the extent of the liability recorded.

Per Share Amounts

The basic per share amount is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and outstanding warrants, in the weighted average number of common shares outstanding during the year, if dilutive. For this purpose, the "treasury stock" method is used which assumes that any proceeds received upon the exercise of in-the-money stock options and warrants would be used to purchase common shares at the average market price for the period.

Income Taxes

The asset and liability method is used for determining income taxes. Under this method, future tax assets and liabilities are recognized for the estimated tax recoverable or payable that would arise if assets and liabilities were recovered or settled at the financial statement carrying amounts. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Changes to these balances, including changes due to changes in income tax rates, are recognized in income in the period in which they occur. The amount of the future income tax asset recognized is limited to the amount that is more likely than not to be realized.

In assessing the realization of the future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the future tax asset considered realizable could change materially in the near term based on future taxable income during the carry-forward period. A valuation allowance has been provided against all net future tax assets as a realization of such net assets is uncertain.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period, including the related income and future taxes and asset retirement obligations.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

The valuation of property and equipment is based on management's best estimate of the future recoverability of these assets. The amounts recorded for depletion and depreciation of property and equipment and accretion of the asset retirement obligation are based on estimates. The property and equipment impairment test is based on estimates of proved reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. The amounts computed with respect to stock-based compensation are based on estimates as to the expected life of options granted, the volatility of the Company's stock price and certain other variables. 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.

Flow-through Shares

Periodically the Company finances a portion of its exploration and development activities through the issue of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to the subscribers. Share capital is reduced and the future income tax liability is increased by the tax affected amount of the renounced tax deductions at the time of renouncement which is when the related documentation is filed with the appropriate government agency and there is reasonable certainty that the expenditures will be incurred.

Stock-based Compensation

Stock options granted to employees and directors are accounted for using the fair value method. For stock options granted to employees, consultants and directors, compensation expense is recorded in the statement of loss and deficit over the vesting period with a corresponding increase to contributed surplus. The fair value of options granted is determined at the date of grant using the Black-Scholes valuation model.

The fair value of warrants issued to agents is recorded as a share issue cost.

Upon exercise of stock options and warrants, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company does not incorporate an estimated forfeiture rate for stock options and agents' warrants that will not vest, but accounts for forfeitures as they occur.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of new accounting policies

In 2009, the Company adopted the following new standards and abstracts:

Section 1506 – "Accounting Changes". Under this section, voluntary changes in accounting policy are permitted only if they result in financial statements that provide more reliable and relevant information to the reader. Changes in accounting policy must be applied retrospectively, while changes in accounting estimates are to be applied prospectively. The revised section also outlines additional disclosure required when accounting changes are applied, including the justification for the change, a complete description of the policy, the primary source of GAAP and the detailed effect on the financial statement line items. There was no impact on the Company's financial statements resulting from the adoption of the revised standard.

Section 3064 – "Goodwill and Intangible Assets" which replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard had no impact on the Company's financial statements.

Amendments to Section 3862 – "Financial Instruments – Disclosures". The amendments require improved and consistent disclosures about fair value measurements of financial instruments and liquidity risk. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009. In the first fiscal year of application, an entity need not provide comparative information for the disclosures required by the amendment. See note 10.

EIC-173 – "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" which clarifies that an entity must consider its own risk and the credit risk of the counterparty when measuring the fair value of derivative instruments. EIC-173 had no impact on the Company's financial statements.

NOTE 4. CASH EQUIVALENTS

Cash equivalents include $299,976 in term deposits, which are invested for a term of thirty days and earn interest at an annual rate of 0.10% (2008 – $2,949,005 of term deposits at a rate of 1.38% to 1.68%).

NOTE 5. PROPERTY AND EQUIPMENT

	Cost	depletion and depreciation	Net Book Value	Cost	depletion and depreciation	Net Book Value
Petroleum and natural gas property and equipment	$ 17,721,202	$ 169,881	$ 17,551,321	$ 11,861,573	$ -	$ 11,861,573
Automotive, office equipment and furniture	64,947	46,615	18,332	65,817	49,227	16,590
	$ 17,786,149	$ 216,496	$ 17,569,653	$ 11,927,390	$ 49,227	$ 11,878,163

Unproved properties in the amount of $12,915,594 (2008 – $nil) were excluded from the depletion calculation.

Included in property and equipment additions are capitalized G&A and stock-based compensation in the amount of $113,029 (2008 – $nil).

NOTE 5. PROPERTY AND EQUIPMENT (CONTINUED)

Effective July 16, 2008, the Company issued 220,000 Common Shares (post consolidation) of the Company to Fred Rumak, President and CEO of the Company, in the form of a private placement, in exchange for the 2% overriding royalty rights, which he held on all of the Company's Saskatchewan properties.

Effective September 1, 2009 the Company acquired producing properties in the Carrot Creek and Tomahawk areas of Alberta in exchange for 4,290,354 Shares (post consolidation) of the Company priced at $0.75 per share.

Effective October 1, 2009, the Company acquired producing properties in the Gadsby area for $110,000 in cash.

The Company's Saskatchewan property exploration permits are subject to certain conditions, one of which is an annual deposit for the work commitment on each property. When actual expenditures are incurred and submitted the deposit is refunded. During 2009, refunds equaled deposits paid.

In relation to petroleum and natural gas properties at December 31, 2009, are deposits in the amount of $183,541 (December 31, 2008 – $183,541) with the Province of Saskatchewan that will be refunded provided the Company's work commitments take place.

At December 31, 2009, the Company applied a ceiling test to its petroleum and natural gas assets. The application of the test required no impairment adjustment to the carrying value of the Company's petroleum and natural gas properties. The prices used in the ceiling test evaluation of the Company's oil and gas assets are summarized in the following chart.

	Crude Oil	Natural Gas	
		Edmonton	Alberta
	WTI Cushing	Par Price	AECO-C
	Oklahoma	40 API	Spot
	($US/bbl)	($Cdn/bbl)	($Cdn/MMBTU)
2010	79.17	84.25	5.36
2011	84.46	89.99	6.21
2012	86.89	92.61	6.44
2013	90.20	96.19	7.23
2014	92.01	98.13	7.98
2015	93.85	100.11	8.16
2016	95.72	102.13	8.34
2017	97.64	104.19	8.52
2018	99.59	106.30	8.71
2019	101.58	108.44	8.90
2020	103.61	110.63	9.10
Thereafter	2%	2%	2%

Percentage change of 2% represents the change in the future prices each year after 2020 to the end of the reserve life.

NOTE 6. FUTURE INCOME TAXES

The provision for income taxes recorded in the financial statements differs from the amount that would be obtained by applying the statutory income tax rate of 29% (2008 – 31.5%) to the loss before tax for the year as follows:

	2009	2008
Loss before income taxes	$ (1,508,693)	$ (1,804,082)
Anticipated income tax recovery	(437,521)	(568,286)
Increase (decrease) resulting from		
Stock-based compensation	126,387	235,962
Meals and entertainment	435	1,575
Changes in statutory enacted tax rates	(12,862)	57,750
Change in prior year tax estimates	1,543	30,597
Expiration of non-capital loss carry forward	54,849	32,780
Share issue costs	(186)	(188,772)
Change in valuation allowance	(167,674)	(76,452)
Future income tax recovery	$ (435,029)	$ (474,846)

The components of the Company's future income tax liability are as follows:

	2009	2008
Future tax assets (liabilities)		
Property and equipment	$ (1,747,411)	$ (1,207,605)
Asset retirement obligation	293,331	83,246
Non capital losses carried forward	1,388,081	1,162,252
Share issue costs	120,348	184,130
Eligible capital expenditures	2,925	2,925
	$ 57,274	$ 224,948
Valuation allowance	(57,274)	(224,948)
	$ -	$ -

NOTE 6. FUTURE INCOME TAXES (CONTINUED)

The Company has the following losses available to deduct from future income:

	Loss	Year of expiry
	$ 129,525	2010
	133,552	2011
	855,280	2015
	829,297	2016
	1,045,987	2027
	1,265,597	2028
	1,085,467	2029
	$ 5,344,705	

NOTE 7. 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 natural gas properties.

	December, 2009	December, 2008
Asset retirement obligation, beginning of year	$ 320,175	$ 296,459
Liabilities acquired	748,938	-
Accretion expense	59,066	23,716
Asset retirement obligation, end of year	$ 1,128,179	$ 320,175

The undiscounted amount of cash flows to settle the obligation is $1,648,425 (2008 – $360,000). The obligation was calculated using a credit-adjusted risk free discount rate of 7.00 and 8.00 percent and an inflation rate of 1.5 to 2 percent over a period of up to 20 years. It is expected that this obligation will be funded from general Company resources at the time the costs are incurred.

NOTE 8. COMMITMENTS

The Company has a lease for office premises at $32,664 per year. The lease continues at this rate until June 2010. The future minimum payments on the lease amount to $16,332. There are no lease commitments after 2010.

Of the $17,721,202 investment in Petroleum and natural gas property and equipment, $7,946,223 was expended on Saskatchewan properties. Over the next two years the Company must spend $4.00 per hectare per year for a total of approximately $447,000 in order to retain these exploration permits. At expiration of these permits in 2010, the Company can apply to continue them as a license.

NOTE 9. SHARE CAPITAL

a) Shares

i) Authorized

Unlimited number of common shares

Unlimited number of preferred shares

ii) Issued common shares

	Year Ended December 31, 2009		Year Ended December 31, 2008	
	Shares	Amount	Shares	Amount
Balance, beginning of year	8,580,629	$22,061,282	6,664,329	$16,842,776
Private placement proceeds	-	-	1,595,300	4,295,480
Issued in exchange for producing properties	4,290,354	3,217,765		
Issued in exchange for overriding royalty rights	-	-	220,000	1,320,000
Issued on exercise of options	-	-	101,000	219,100
Transfer from contributed surplus on exercise of options	-	-	-	162,022
Effect of tax renunciation on flow-through shares	-	(435,029)	-	(11,063)
Share issue costs	-	(718)	-	(767,033)
	12,870,983	24,843,300	8,580,629	22,061,282

b) Warrants

	Shares	Amount	Shares	Amount
Balance, beginning of year	710,974	888,120	-	-
Add warrants issued with private placement	-	-	583,350	704,720
Add warrants issued to Agents	-	-	127,624	183,400
Less warrants expired	(710,974)	(888,120)	-	-
Balance, end of year	-	-	710,974	888,120
Balance shares and warrants, end of year		$24,843,300		$22,949,402

Effective October 13, 2009 PanTerra shares were consolidated on a one for ten basis. Accordingly, the comparative number of shares and per share amounts, have been retroactively adjusted to reflect the one for ten consolidation.

Effective September 1, 2009 the Company issued 4,290,354 shares (post consolidation) in exchange for producing properties in the Carrot Creek and Tomahawk areas of Alberta priced at $ 0.75 per share.

NOTE 9. SHARE CAPITAL (CONTINUED)

On May 8, 2008 the Company closed a private placement financing comprised of 428,600 common flow-through shares (post consolidation) of the Company at a price of $3.50 per share and 1,166,700 units (post consolidation) of the Company at a price of $3.00 per unit. Each unit consists of one common share and one-half of one common share purchase warrant. These warrants expired November 18, 2009. Gross proceeds realized by the Company from the offering totaled $5,000,200. In connection with this private placement, 127,624 agents' warrants (post consolidation) were also issued. These warrants also expired on November 18, 2009. Fair value of the warrants is estimated using the Black-Scholes option pricing model using a risk free rate of 2.82% and expected volatility of 102%.

During the year ended December 31, 2008, the Company issued 101,000 common shares (post consolidation) on the exercise of 101,000 options (post consolidation) for cash proceeds of $219,100. The average exercise price was $2.20 per option. Fair value of $162,022 attached to these options was transferred from contributed surplus to share capital.

During 2007, the Company implemented a shareholder rights plan whereby the Board of Directors of the Company, at their discretion, upon the occurrence of certain events can authorize the issuance of six shares for each outstanding share, outstanding option or outstanding warrant of the Company (at ½ the market price per share) to the holder of the Company's shares at the time. The effect of the issuance of these shares would be to increase by six times the number of shares of the Company. As at December 31, 2009, there were 12,870,983 rights (post consolidation) authorized and issued. No event has occurred allowing the rights to be exercised in accordance with the shareholders rights plan.

c) Options

The Company has a Stock Option Plan whereby the Board of Directors is authorized to enter into incentive stock option agreements with directors, officers, consultants and employees, up to a maximum of 10% of the issued and outstanding shares as at the date of grant. The price is determined on the date of the grant by taking the closing price of the previous day on the TSX Venture Exchange and the options vest over a period of two years. The options are non-transferable and will expire thirty days after the optionee ceases to be an "eligible person", or one year after the death or disability of the optionee. At December 31, 2009, there were no shares authorized or reserved for stock option grants other than for the options outstanding at that date as disclosed in the table below.

As a result of the one for ten stock consolidation, the number of outstanding options was adjusted in accordance with existing plan provisions. All prior period numbers of options as well as weighted average exercise prices and fair value per option have been retroactively adjusted to reflect the one for ten stock consolidation**.**

As at December 31, 2009 and 2008, the Company had the following stock options outstanding:

	Options	Exercise Price (per share)
Balance January 1, 2008	531,000	$ 2.80
Granted	274,000	3.80
Expired or cancelled	(93,000)	3.00
Exercised	(101,000)	2.20
Balance December 31, 2008	611,000	2.60
Granted	920,500	0.59
Expired or cancelled	(423,500)	2.70
Exercised	-	-
Balance December 31, 2009	1,108,000	$ 1.26

NOTE 9. SHARE CAPITAL (CONTINUED)

During the year 920,500 options (post consolidation) were granted, and 423,500 (post consolidation) expired. The cancelled options had already vested and therefore no adjustment to stock based compensation expense was required. The options granted vest over a two year period.

The following table summarizes information about the stock options outstanding at December 31, 2009:

Exercise Price Range	Options Outstanding	Weighted Average Remaining Life		Weighted Average Exercise Price (Outstanding)	Number of Options Currently Exercisable		Weighted Average Exercise Price (Exercisable)
$0.000 to $0.990	525,000	4.8754	$	0.25	174,993	$	0.25
$1.000 to $1.990	314,000	4.3378		1.04	104,667		1.04
$2.000 to $2.990	100,000	0.6208		2.70	100,000		2.70
$3.000 to $3.990	64,000	3.4262		3.47	42,666		3.47
$4.000 to $5.000	105,000	3.4027		4.25	70,002		4.25
	1,108,000	4.1158	$	1.26	492,328	$	1.76

The Company recorded stock based compensation in the amount of $435,818 (2008 – $749,087) in expense and $23,339 (2008 - $nil) in property plant and equipment, for stock options granted during the year. The fair value of stock options averaging $0.392 per option in 2009 (2008 – $0.381) was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2009	2008
Risk-free rate	2.26%	3.09%
Expected life	5	3
Expected volatility	153%	121%
Expected dividend yield	0%	0%

NOTE 9. SHARE CAPITAL (CONTINUED)

e) Contributed surplus

The following table reconciles the Company's contributed surplus:

	December 31 2009		December 31 2008	
Balance, beginning of period	$	1,975,728	$	1,388,663
Stock based compensation expense		435,818		749,087
Stock based compensation capitalized		23,339		-
Transfer to share capital on exercise of options		-		(162,022)
Transfer re expired warrants		888,120		-
Balance, end of period	$	3,323,005	$	1,975,728

f) Loss per share

For the year ended December 31, 2009, the basic and diluted weighted average number of shares (Post consolidation) is 10,014,683 (2008 – 7,848,265).

As a result of the net loss for the year ended December 31, 2009, 1,108,000 options (post consolidation) outstanding have not been included in the calculation of diluted loss per share because to do so would have been anti-dilutive.

	2009	2008
Total Options Outstanding	1,108,000	611,000
Total Warrants Outstanding	-	710,974
	1,108,000	1,321,974

NOTE 10. FINANCIAL INSTRUMENTS, RISK MANAGEMENT

(a) Fair values of financial assets and liabilities

Financial instruments of the Company consist of cash and cash equivalents, accounts receivable, term deposits, deposits for land leases, and accounts payable and accrued liabilities. As at December 31, 2009 there were no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values due to the short term nature of these financial instruments.

PanTerra classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology included quoted prices for identical assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. 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.

NOTE 10. FINANCIAL INSTRUMENTS, RISK MANAGEMENT (CONTINUED)

- Level 3 – inputs to the valuation methodology are not based on observable market data.

(b) Financial risk factors

Credit risk

Credit risk is the risk of financial loss to a company if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from petroleum and natural gas marketers. Receivables from petroleum marketers are normally collected on the 25th day of the month following production. The Company historically has not experienced collection issues with its petroleum and natural gas marketers. The Company does not obtain collateral from petroleum and natural gas marketers.

In addition the Company has financial instruments including cash and term deposits in Canadian chartered banks, interest receivable from the same banks and GST receivable from the federal government. The Company considers the risk of default from these parties to be low.

Liquidity risk

Liquidity risk relates to the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities. The financial liabilities on the balance sheet consist of accounts payable and accrued liabilities. The Company anticipates it will have adequate liquidity to fund its financial liabilities through issuing share capital.

Market risk

Market risk is the risk that changes in market prices, such as currency risk, commodity risk and interest risk will affect the Company's net earnings, future cash flows, the value of financial instruments, or the fair value of its assets and liabilities.

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by the relationship between the Canadian and US dollar as well world economic events dictating the levels of supply and demand. The Company did not have any financial instruments in place to manage commodity prices during the year ended December 31, 2009.

If production remained constant and the Company's realized prices changed by $1.00 per barrel of oil equivalent, the Company's net loss would vary by $6,195 during the year ended December 31, 2009 (December 31, 2008 nil).

Currency risk

The Company does purchase services from the United States and as such is exposed to currency fluctuations from the time a liability is incurred until payment is made.

Interest rate risk

The Company has no debt and generally receives a fixed interest on term deposits and as such has very limited exposure to interest risk.

NOTE 11. CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility, to sustain the development of the Company's current capital projects and for future development of the Company. The Company monitors its working capital and expected capital spending and issues share capital to manage its development plans. The Company's working capital is made up of cash, accounts receivable, deposits and prepaid expenses less accounts payable. The Company has no externally imposed capital requirements.

The Company considers its capital structure to include shareholders' equity and working capital.

NOTE 12. RELATED PARTY TRANSACTIONS

Effective July 16, 2008, the Company issued 220,000 Common Shares (post consolidation) to Fred Rumak, President and CEO of the Company, in the form of a private placement, in exchange for the 2% overriding royalty rights, which he held on all of the Company's Saskatchewan properties.

Included in general and administrative expenses for the year ended December 31, 2009, are consulting fees of $289,944 (2008 – $244,000) paid to companies controlled by officers of the Company. In addition legal fees of $18,511 were incurred (2008 - $81,664) to a law firm of which the Company's corporate secretary is a partner. At December 31, 2009, $1,739 of these legal fees were in Accounts Payable. The related party transactions were in the normal course of operations and were measured at the exchange amount, which was comparable to similar transactions between arm's length parties based on standard commercial terms.

NOTE 13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

NOTE 14. SUBSEQUENT EVENT

Effective January 26, 2010, the Company granted to a consultant, incentive stock options for the purchase of 100,000 shares (post consolidation) for a one year period at $0.425 per share.