PanTerra Resource Corp.

FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

PanTerra Resource Corp.
Financial Statements
For the years ended December 31, 2008 and 2007

Contents

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

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

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

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

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

The financial statements as at and for the year ended December 31, 2007 were audited by other auditors, who expressed an opinion without reservation on these statements in their report dated April 10, 2008.

Meyers Norris Penny LLP

Calgary, Alberta
February 10, 2009

Chartered Accountants

PANTERRA RESOURCE CORP.
(A development stage company)
BALANCE SHEETS
As at December 31

	2008	2007
ASSETS		
Current		
Cash and cash equivalents (note 5)	$ 3,205,158	$ 767,218
Accounts receivable	39,638	75,063
Deposits for land leases (note 6)	183,541	235,632
Prepaid expenses	42,101	37,061
	3,470,438	1,114,974
Property and equipment (note 6)	11,878,163	9,267,519
	$ 15,348,601	$ 10,382,493
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 165,130	$ 587,193
Asset retirement obligation (note 8)	320,175	296,459
	485,305	883,652
Basis of Presentation (note 2)		
Commitments (note 9)		
Subsequent Events (note 15)		
SHAREHOLDERS' EQUITY		
Share capital (note 10)	22,949,402	16,842,776
Contributed surplus (note (10e))	1,975,728	1,388,663
Deficit	(10,061,834)	(8,732,598)
	14,863,296	9,498,841
	$ 15,348,601	$ 10,382,493

On behalf of the board

Fred Rumak Director David Halpin Director

See accompanying notes to the financial statements

PANTERRA RESOURCE CORP.
(A development stage company)
STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT
Years ended December 31

	2008	2007
EXPENSES		
Stock-based compensation	$749,087	$298,082
Consulting fees	449,155	429,753
Office and administration	373,393	261,409
Professional fees	232,615	287,148
Amortization and accretion	40,449	29,162
Investor communications	34,362	32,020
Transfer agent fees	8,903	18,680
Interest and bank charges	1,141	81,168
Overhead recovery	(15,381)	(66,974)
	1,873,724	1,370,448
OTHER INCOME		
Interest income	69,642	94,926
Foreign exchange gain	-	5,051
	69,642	99,977
LOSS BEFORE INCOME TAXES	(1,804,082)	(1,270,471)
Future income tax recovery (note 7)	474,846	584,775
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(1,329,236)	(685,696)
DEFICIT, BEGINNING OF YEAR	(8,732,598)	(8,046,902)
DEFICIT, END OF YEAR	$ (10,061,834)	$ (8,732,598)
Net loss per share		
- basic	$ (0.02)	$ (0.01)
- diluted	(0.02)	(0.01)
Weighted average number of common shares (note (10f))		
- basic	78,482,648	54,440,356
- diluted	78,482,648	54,440,356

See accompanying notes to the financial statements

PANTERRA RESOURCE CORP.
(A development stage company)
STATEMENTS OF CASH FLOWS
Years ended December 31

	2008	2007
CASH FLOWS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net (loss) for the year	$ (1,329,236)	$ (685,696)
Add items not affecting cash		
Stock-based compensation	749,087	298,082
Future income tax recovery	(474,846)	(584,775)
Amortization and accretion	40,449	29,162
	(1,014,546)	(943,227)
Net changes in non-cash working capital items:		
Accounts receivable	35,425	103,492
Prepaid expenses	(5,040)	19,277
Accounts payable and accrued liabilities	(219,557)	(44,121)
	(189,172)	78,648
	(1,203,718)	(864,579)
INVESTING ACTIVITIES		
Additions to property and equipment	(843,594)	(2,150,369)
Refund of land deposits	235,632	740,720
Land deposits remitted	(183,541)	(287,588)
Changes in non-cash working capital	(202,506)	53,498
	(994,009)	(1,643,739)
FINANCING ACTIVITIES		
Shares issued on exercise of options	219,100	111,499
Cancelled share refund	-	(90,000)
Private placement proceeds	5,000,200	-
Share issue costs	(583,633)	(31,774)
	4,635,667	(10,275)
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	2,437,940	(2,518,593)
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	767,218	3,285,811
CASH & CASH EQUIVALENTS, END OF YEAR	$ 3,205,158	$ 767,218
CASH AND EQUIVALENTS IS COMPRISED OF:		
Cash in bank	$ 256,153	$ 168,939
Term deposits (note 5)	2,949,005	598,279
	$ 3,205,158	$ 767,218

See accompanying notes to the financial statements

NOTE 1. NATURE OF OPERATIONS

PanTerra Resource Corp. (the “Company” or “PanTerra”) is a resource company focused on the exploration and development of shallow gas and shale gas in the Province of Saskatchewan. The Company is headquartered in the City of Calgary and is an Alberta based reporting entity whose shares are listed on the TSX Venture Exchange as: V.PAN. The Company has drilled a number of wells in Saskatchewan and is in the process of evaluating and testing the wells. The company is in the development stage as it has no revenue from operations but has identified “gas resources” and is working to have them recognized as “gas reserves”.

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, 2008, the Company has working capital of $3,305,308 (2007 – $527,781), an accumulated deficit of $10,061,834 (2007 – $8,732,598) and shareholders’ equity of $14,863,296 (2007 – $9,498,841). 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. NEW ACCOUNTING POLICIES

Adoption of new accounting policies

Effective January 1, 2008, the Company has adopted the CICA handbook *section 3862* “Financial Instruments – Disclosures” and *section 3863* “Financial Instruments – Presentation.” Section 3862 and 3863 replace section 3861 “Financial Instruments – Disclosure and Presentation” which revises financial instruments disclosure requirements and leaves unchanged its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risks arising form financial instruments and how the Company manages those risks.

Effective January 1, 2008, the Company adopted the CICA handbook section 1535 “Capital Disclosures.” Section 1535 requires the disclosure of objectives, policies and processes for managing capital. This includes qualitative information regarding the Company’s objectives, policies and processes for managing capital and quantitative data about what the Company manages as capital. These disclosures are based on information used internally by the Company’s management. See note 12.

Future accounting pronouncements

On February 13, 2008, the CICA Accounting Standards Board announced that Canadian public reporting issuers will be required to report under International Financial Reporting Standards (“IFRS”) in 2011. Prior to the adoption date, certain MD&A disclosures are required. The Company is currently evaluating the impact of these new standards.

NOTE 4. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies observed in the preparation of the financial statements are summarized below. These policies are in accordance with Canadian generally accepted accounting principles.

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

NOTE 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 11.

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”, term deposits and 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.

As at December 31, 2008 and 2007, there are no significant differences between the carrying amounts of these instruments and their estimated fair value.

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 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, 2008 and 2007; accordingly, comprehensive loss is equal to net loss.

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

NOTE 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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, asset retirement and abandonment 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.

As indicated in note 1, the Company is in the development stage and has no proved reserves. 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 engineers 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.

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.

Joint Interest Activities

The Company's exploration activities can be 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.

NOTE 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 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 covered 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.

Measurement Uncertainty
The preparation of financial statements in conformity with Canadian generally accepted accounting principals 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. Actual results could differ from those estimates. The valuation of property and equipment is based on management's best estimate of the future recoverability of these assets. 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.

NOTE 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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.

Accounting changes

The Company has adopted the revised CICA 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.

NOTE 5. CASH EQUIVALENTS

Cash equivalents include $2,949,005 in term deposits, which are invested for a term of thirty days and earn interest at an annual rate of 1.38% to 1.68% (2007 – $598,279 of term deposits at a rate of 3.90% to 4.00%).

NOTE 6. PROPERTY AND EQUIPMENT

	December 31, 2008			December 31, 2007		
	Cost	Accumulated depletion and depreciation	Net Book Value	Cost	Accumulated depletion and depreciation	Net Book Value
Petroleum and natural gas property and equipment	$ 11,861,573	$ -	$ 11,861,573	$ 9,235,696	$ -	$ 9,235,696
Automotive, office equipment and furniture	65,817	49,227	16,590	64,317	32,494	31,823
	$ 11,927,390	$ 49,227	$ 11,878,163	$ 9,300,013	$ 32,494	$ 9,267,519

Amortization was taken on automotive, office equipment and furniture but no depletion, depreciation or amortization was taken on the Company's petroleum and natural gas property and equipment as all of the Company's properties are in the pre-production stage and accordingly had no oil and natural gas production during 2008 and 2007.

NOTE 6. PROPERTY AND EQUIPMENT *(CONTINUED)*

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 2008, refunds received net of deposits paid, amounted to $52,091.

In relation to petroleum and natural gas properties at December 31, 2008, are deposits in the amount of $183,541 (December 31, 2007 – $235,632) with the Province of Saskatchewan that will be refunded provided the Company's work commitments take place.

Effective July 16, 2008, the Company issued 2,200,000 Common Shares 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 30, 2007, PanTerra and Stealth Ventures Ltd. ("Stealth"), a previous joint venture partner, concluded a transaction whereby PanTerra acquired petroleum and natural gas assets from Stealth. The assets acquired were Stealth's 50% interest in all PanTerra-operated joint venture shale gas properties in Saskatchewan. PanTerra issued 13,000,000 common shares from treasury as consideration. These shares are restricted from trading for a period of one year and as a result are subject to a valuation discount amounting to $910,000. The shares were valued at the trading value of PanTerra's common shares of $0.25 per share at September 14, 2007, for a total consideration of $3,250,000 before the discount. The Company has netted the discount against this share capital amount and reduced the acquired property and equipment by the same amount. In addition, the discount created temporary tax differences which have been shown as a reduction of the Company's future income tax liability and property and equipment balances in the amount of $381,000.

NOTE 7. 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 31.5% (2007 – 32.12%) to the loss before tax for the year as follows:

	2008	2007
Loss before income taxes	$ (1,804,082)	$ (1,270,471)
Anticipated income tax recovery	$ (568,286)	$ (408,075)
Increase (decrease) resulting from:		
Stock-based compensation	235,962	95,744
Meals and entertainment	1,575	-
Change in statutory enacted tax rates	57,750	(26,971)
Change in prior year tax estimates	30,597	(381,000)
Expiration of non-capital loss carryforward	32,780	-
Share issuance costs	(188,772)	-
Change in valuation allowance	(76,452)	135,527
Future income tax recovery	$ (474,846)	$ (584,775)

NOTE 7. FUTURE INCOME TAXES *(CONTINUED)*

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

	2008	2007
Future tax assets (liabilities)		
Property and equipment	$ (1,207,605)	$ (836,921)
Asset retirement obligation	83,246	88,938
Non capital losses carryforward	1,162,252	975,000
Share issue costs	184,130	71,458
Eligible capital expenditures	2,925	2,925
	224,948	301,400
Valuation allowance	(224,948)	(301,400)
	$ -	$ -

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

Loss	Year of expiry
$ 210,959	2009
129,525	2010
133,552	2014
855,280	2015
829,297	2026
1,045,989	2027
1,265,597	2028

NOTE 8. ASSET RETIREMENT OBLIGATION

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and natural gas properties.

	December 31, 2008	December 31, 2007
Asset retirement obligation, beginning of period	$ 296,459	$ 128,699
Liabilities incurred	-	7,514
Liabilities acquired	-	146,794
Accretion expense	23,716	13,452
Asset retirement obligation, end of period	$ 320,175	$ 296,459

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

The Company estimates its obligations related to drilling activities will be settled over approximately the next four years.

NOTE 9. 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 are as follows:

2009	$32,664
2010	$16,332
	$48,996

There are no lease commitments after 2010.

Of the $11,878,163 investment in Petroleum and natural gas property and equipment, $7,247,458 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 $1,915,000 in order to retain these exploration permits. At expiration of these permits in 2010, the Company can apply to continue them as a license.

At December 31, 2008 the Company has commitments to incur expenditures of $839,442 in relation to flow-through shares issued in 2008. These expenses must be incurred by December 31, 2009.

NOTE 10. SHARE CAPITAL

	Year Ended December 31, 2008		Year Ended December 31, 2007	
	Shares	Amount	Shares	Amount
Balance, beginning of period	66,644,080	$ 16,842,776	53,986,202	$ 15,380,684
Issued for P & NG property (note 6)	-	-	13,000,000	2,340,000
Private placement proceeds	15,953,000	4,295,480	-	-
Issued in exchange for overriding royalty rights (note 6)	2,200,000	1,320,000	-	-
Issued on exercise of options and warrants	1,010,000	219,100	587,500	126,380
Transfer from contributed surplus on exercise of options	-	162,022	-	-
Shares cancelled as a result of agreements with two former Directors	-	-	(929,622)	(254,280)
Effect of tax renunciation on flow-through shares	-	(11,063)	-	(718,234)
Share issue costs	-	(767,033)	-	(31,774)
Balance, end of period	85,807,080	$ 22,061,282	66,644,080	$ 16,842,776

b) Warrants

	Shares	Amount	Shares	Amount
Balance, beginning of period	-	$ -	7,078,066	$ 189,054
Issued with private placement	5,833,500	704,720	-	-
Issued to Agents	1,276,241	183,400	-	-
Exercised	-	-	(587,500)	(14,881)
Expired	-	-	(6,490,566)	(174,173)
Balance, end of period	7,109,741	$ 888,120	-	$ -
Balance shares and warrants, end of period		$ 22,949,402		$ 16,842,776

NOTE 10. SHARE CAPITAL *(CONTINUED)*

On May 8, 2008 the Company closed a private placement financing comprised of 4,286,000 common flow-through shares of the Company at a price of $0.35 per share and 11,667,000 units of the Company at a price of $0.30 per unit. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant may be exercisable into one common share of the Company at a price of $0.40 per share for a period of 18 months following the date of closing. Gross proceeds realized by the Company from the offering totaled $5,000,200. In connection with this private placement, 1,276,241 agents' warrants were also issued. Each warrant is exercisable into one common share of the Company at a price of $0.30 per share until November 8, 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 1,010,000 common shares on the exercise of 1,010,000 options for cash proceeds of $219,100. The average exercise price was $0.22 per option. Fair value of $162,022 attached to these options was transferred from contributed surplus to share capital.

During the year ended December 31, 2007, the Company issued 587,500 common shares on the exercise of 587,500 warrants for cash proceeds of $111,499. The average exercise price was $0.19 per warrant. Fair value of $14,881 attached to these warrants was transferred from warrant capital to share capital for a total of $126,380. In addition as a result of an agreement with a former director and officer 891,160 shares were cancelled and returned to Treasury. PanTerra has returned a portion of the initial purchase price of the common shares to the former director and officer in the amount of $90,000. Under another agreement with a former director and officer 38,462 common shares were returned to Treasury at no cost to the Company.

At September 30, 2007, the Company issued 13,000,000 shares for $2,340,000 for the acquisition of the 50% interest in the Saskatchewan properties from Stealth Ventures Ltd. (note 6)

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, 2008, there were 85,807,080 rights 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, 2008, 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.

NOTE 10. SHARE CAPITAL *(CONTINUED)*

c) Options *(continued)*

As at December 31, 2008 and 2007, the Company had the following stock options outstanding:

	Year ended December 31, 2008			Year ended December 31, 2007		
	Number of Options		Weighted average exercise price	Number of Options		Weighted average exercise price
Outstanding, beginning of period	5,310,000	$	0.27	4,610,000	$	0.28
Granted	2,740,000	$	0.38	2,050,000	$	0.25
Exercised	(1,010,000)	$	0.22	-	$	-
Expired or cancelled	(930,000)	$	0.30	(1,350,000)	$	0.28
Outstanding, end of period	6,110,000	$	0.26	5,310,000	$	0.27
Exercisable, end of period	3,716,666	$	0.31	3,306,666	$	0.27

During the year 2,740,000 options were granted, 1,010,000 were exercised and 930,000 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, 2008:

Exercise Price Range	Options Outstanding	Average Remaining Life		Average Exercise Price	Options Currently Exercisable		Average Exercise Price
0.22 - 0.29	2,210,000	1.33		0.26	1,676,666		0.26
0.30 - 0.39	2,400,000	2.48		0.32	1,540,000		0.32
0.425	1,500,000	4.40		0.43	500,000		0.43
	6,110,000	2.54	$	0.33	3,716,666	$	0.31

The Company recorded stock based compensation in the amount of $749,087 (2007 – $298,082) for stock options granted during the year. The fair value of stock options averaging $0.381 per option in 2008 (2007 – $0.138) was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2008	2007
Risk-free rate	3.09	4.27%
Expected life	3	3
Expected volatility	121%	83%
Expected dividend yield	0%	0%

NOTE 10. SHARE CAPITAL *(CONTINUED)*

d) Warrants

As at December 31, 2008 and 2007 the Company had the following warrants outstanding:

	Year ended December 31, 2008			Year ended December 31, 2007		
	Number of Warrants		Weighted Average Exercise Price	Number of Warrants		Weighted Average Exercise Price
Outstanding, beginning of period	-		-	7,078,066		0.27
Issued share purchase warrants	5,833,500		0.40	-		-
Issued agents warrants	1,276,241		0.30	-		-
Exercised	-		-	(587,500)		0.19
Expired	-		-	(6,490,566)		0.28
Outstanding, end of period	7,109,741	$	0.38	-	$	-

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

	Exercise Price Range	Warrants Outstanding	Weighted Average Remaining Life		Weighted Average Exercise Price	Number of Warrants Currently Exercisable
Share purchase warrants	0.40	5,833,500	0.85		0.40	5,833,500
Agents warrants	0.30	1,276,241	0.85		0.30	1,276,241
		7,109,741		$	0.38	7,109,741

e) Contributed surplus

The following table reconciles the Company's contributed surplus:

		December 31 2008		December 31 2007
Balance, beginning of period	$	1,388,663	$	752,128
Stock based compensation expense		749,087		298,082
Transfer to share capital on exercise of options		(162,022)		-
Transfer from warrants expired		-		174,173
Shares returned and cancelled		-		164,280
Balance, end of period	$	1,975,728	$	1,388,663

NOTE 10. SHARE CAPITAL *(CONTINUED)*

f) Loss per share

For the year ended December 31, 2008, the basic and diluted weighted average number of shares is 78,482,648 (2007 – 54,440,356).

As a result of the net loss for the year ended December 31, 2008, 6,110,000 options and 7,109,741 warrants outstanding have not been included in the calculation of diluted loss per share because to do so would have been anti-dilutive.

	2008	2007
Total Options Outstanding	6,110,000	5,310,000
Warrants	7,109,741	-
	13,219,741	5,310,000

NOTE 11. FINANCIAL INSTRUMENTS, RISK MANAGEMENT

Credit risk

Credit risk is the risk of financial loss to a company if a counter party to a financial instrument fails to meet its contractual obligations. In the Company's case its financial instruments relate to 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.

The Company does purchase services from the US and as such is exposed to currency fluctuations from the time a liability is incurred until payment is made. The Company is not exposed to commodity price risk as it has no current production. 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 12. 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 has no externally imposed capital requirements.

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

NOTE 13. RELATED PARTY TRANSACTIONS

Effective July 16, 2008, the Company issued 2,200,000 Common Shares 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.

Included in general and administrative expenses for the year ended December 31, 2008, are consulting fees of $244,000 (2007 – $240,000) paid to companies controlled by officers of the Company. In addition legal fees of $81,664 were incurred, of which $564 was in accounts payable at year end (2007 - $171,923 of which $69,923 was for the 2007 cancelled financing and of which $71,284 was in accounts payable at year end) to a law firm of which the Company's corporate secretary is a partner.

NOTE 14. COMPARATIVE FIGURES

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

NOTE 15. SUBSEQUENT EVENTS

Effective January 5, 2009, the Company granted, to certain directors and officers, incentive stock options for the purchase of an additional 1,920,000 shares, for a five year period at $0.11 per share.

At December 31, 2008 the Company was waiting for approval from the Saskatchewan Government for $652,606 in expenditures in connection with our lease commitments, and a refund of $183,541. This approval has now been given and the refund was received subsequent to year end.