

# PANTERRA RESOURCE CORP.

Condensed Interim Statement of Financial Position  
(Unaudited)

	Note	March 31, 2011	December 31, 2010	January 1, 2010
<b>Assets</b>				
Cash and cash equivalents		\$ 797,720	\$ 1,306,759	\$ 315,170
Trade and other receivables		126,676	138,822	177,482
Deposits and prepaid expenses		40,731	32,630	277,979
Total current assets		965,127	1,478,211	770,631
Property, plant and equipment	4	5,303,150	5,101,567	4,934,196
Exploration and evaluation assets	5	13,384,845	13,145,755	12,754,218
Total non-current assets		18,687,995	18,247,322	17,688,414
Total assets		\$19,653,122	\$19,725,533	\$18,459,045
<b>Liabilities</b>				
Accounts payable and accrued liabilities		\$ 426,103	\$ 359,723	\$ 181,297
Premium liability		-	211,000	-
Total current liabilities		426,103	570,723	181,297
Decommissioning liability	6	1,364,712	1,452,995	1,408,316
Total non-current liabilities		1,364,712	1,452,995	1,408,316
Total liabilities		1,790,815	2,023,718	1,589,613
<b>Shareholders' Equity</b>				
Share capital	7	28,289,447	28,039,447	25,938,583
Contributed surplus	7	4,030,346	3,761,310	3,325,890
Deficit		(14,457,486)	(14,098,942)	(12,395,041)
Total shareholders' equity		17,862,307	17,701,815	16,869,432
<i>Going concern (note 2)</i>				
<i>Commitments (note 12)</i>				
<i>Subsequent events (note 13)</i>				
Total liabilities and equity		\$19,653,122	\$19,725,533	\$18,459,045

The accompanying notes are an integral part of these condensed interim financial statements.

# PANTERRA RESOURCE CORP.

## Condensed Interim Statement of Comprehensive Loss

For three months ended March 31, 2011, with comparative figures for 2010  
(Unaudited)

	Note	2011	2010
Oil and natural gas revenue		\$ 222,984	\$ 389,361
Other income		3,750	6
<b>Total Revenue</b>		<b>226,734</b>	<b>389,367</b>
Production and operating expenses		209,774	328,668
Depletion, depreciation and amortization	4	71,655	107,639
General and administrative expenses		497,413	324,371
<b>Total expenses</b>		<b>778,842</b>	<b>760,678</b>
Finance income		(1,588)	-
Finance expense	6	19,024	20,043
<b>Net finance expenses</b>		<b>17,436</b>	<b>20,043</b>
Loss before income tax		(569,544)	(391,354)
Income tax reduction:			
Deferred tax		211,000	-
<b>Total comprehensive loss for the period attributable to common shareholders</b>		<b>\$ (358,544)</b>	<b>\$ (391,354)</b>
Loss per share:			
Basic		\$ (0.02)	\$ (0.03)
Diluted		\$ (0.02)	\$ (0.03)

The accompanying notes are an integral part of these interim condensed financial statements.

# PANTERRA RESOURCE CORP.

## Condensed Interim Statement of Changes in Equity (Unaudited)

	Note	Number of common shares	Number of Warrants	Share Capital	Share Issue Costs	Warrants Value	Contributed Surplus	Deficit	Total Equity
Balance January 1, 2011		25,581,591	3,216,415	\$29,742,692	\$(1,908,345)	\$ 205,100	\$3,761,310	\$(14,098,942)	\$17,701,815
Issue of common shares	7	1,250,000		250,000					250,000
Share based payments	7						269,035		269,035
Loss and comprehensive loss								(358,543)	(358,543)
<b>Balance March 31, 2011</b>		<b>26,831,591</b>	<b>3,216,415</b>	<b>\$29,992,692</b>	<b>\$(1,908,345)</b>	<b>\$ 205,100</b>	<b>\$4,030,345</b>	<b>\$(14,457,485)</b>	<b>\$17,862,307</b>
Balance January 1, 2010		12,870,983	-	\$27,422,204	\$(1,483,621)	\$ -	\$3,325,890	\$(12,395,041)	\$16,869,432
Share based payments	7						74,593		74,593
Loss and comprehensive loss								(391,354)	(391,354)
<b>Balance March 31, 2010</b>		<b>12,870,983</b>	<b>-</b>	<b>\$27,422,204</b>	<b>\$(1,483,621)</b>	<b>\$ -</b>	<b>\$3,400,483</b>	<b>\$(12,786,395)</b>	<b>\$16,552,671</b>

The accompanying notes are an integral part of these interim condensed financial statements.

# PANTERRA RESOURCE CORP.

Condensed Interim Statement of Cash Flows

For three months ended March 31, 2011, with comparative figures for 2010

(Unaudited)

	Note	2011	2010
Cash flows from operating activities:			
Total comprehensive loss for the period		\$ (358,544)	\$ (391,354)
Adjustments for:			
Depletion, depreciation and amortization	4	71,655	107,639
Net finance expenses (including accretion)	6	19,024	20,043
Gain on sale of property, plant and equipment		(3,750)	-
Stock based compensation	7	269,036	74,593
Income taxes		(211,000)	-
Change in non-cash working capital	8	70,424	76,716
Net cash used in operating activities		(143,155)	(112,363)
Cash flows from investing activities:			
Property, plant and equipment expenditures		(399,294)	(43,579)
Proceeds from sale of property, plant and equipment		22,500	-
Additions to intangible exploration assets	5	(239,090)	-
Net cash used in investing activities		(615,884)	(43,579)
Cash flows from financing activities:			
Proceeds from issue of share capital	7	250,000	-
Net cash from financing activities		250,000	-
Change in cash and cash equivalents		(509,039)	(155,942)
Cash and cash equivalents beginning of period		1,306,759	315,170
Cash and cash equivalents end of period		\$ 797,720	\$ 159,228

The accompanying notes are an integral part of these condensed interim financial statements.

**PanTerra Resource Corp.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
March 31, 2011 and 2010  
(Unaudited)

**Note 1 NATURE OF OPERATIONS**

**PanTerra Resource Corp.** (the “Company” or “PanTerra”) is oil and gas exploration and production company with producing properties in Alberta and a shale gas resource project 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 registered office and principal address is located at 260, 603 – 7<sup>th</sup> Avenue SW, Calgary, AB, T2P 2T5. The condensed interim financial statements were authorized for issuance by the Board of Directors on June 28, 2011.

The Company operates primarily in one operating segment, namely the exploration, development, and production of oil and natural gas. Revenue is derived from the sale of oil and natural gas within Canada and such there are no material reportable segments.

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.

**Basis of Presentation**

These condensed interim financial statements are unaudited and have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting. These statements represent the first financial statements that have been prepared in accordance with IFRS. The first date IFRS was applied was January 1, 2010. Previously the financial statements were prepared in accordance with Generally Accepted Accounting Principles (“Canadian GAAP”). Subject to certain transition elections taken and disclosed in note 14, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect.

The condensed interim financial statements should be read in conjunction with the Company’s Canadian GAAP annual financial statements for the year ended December 31, 2010. Note 14 discloses information on the transition to IFRS effective for the year ended December 31, 2010 that is material to the understanding of these interim statements.

**Note 2 GOING CONCERN**

These condensed interim 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. The Company incurred a net loss of \$358,544, for the period ended March 31, 2011. As of March 31, 2011, the Company has working capital of \$539,024 (2010 – \$356,678), and an accumulated deficit of \$14,457,486 (2010 – \$12,786,395). The continuation of the Company as a going concern is dependent upon the ability of the Company to obtain necessary equity or other financing to continue operations, and/or to attain sufficient 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.

**PanTerra Resource Corp.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
March 31, 2011 and 2010  
(Unaudited)

**Note 3 SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Measurement*

The condensed interim financial statements have been prepared under the historical cost method, except share based compensation.

*Revenue Recognition*

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

*Financial Instruments*

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instrument were acquired.

Financial assets

**Fair value through profit or loss**

A financial asset can be classified as fair value through profit or loss only if it is designated at fair value through profit or loss or held-for-trading. The Company's financial assets at fair value through profit or loss are held for trading financial assets.

**Held-to-maturity**

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intention and ability to hold until maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, impairment losses are included in profit or loss. The Company does not have any assets classified as held-to-maturity.

**Loans and receivables**

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are measured at amortized cost using the effective interest method. Any gains or losses on the realization of receivables are included in profit or loss. Trade and other receivables are included within this category.

**PanTerra Resource Corp.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
March 31, 2011 and 2010  
(Unaudited)

**Impairment of financial assets**

All financial assets except for those at fair value through profit or loss are subject to review for impairment at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or a group of financial assets are impaired. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Financial liabilities

**Fair value through profit or loss**

These liabilities are comprised of derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are measured at fair value with changes in fair value included in earnings

**Other financial liabilities**

They are measured at amortized cost using the effective interest method. Any gains or losses in the realization of other financial liabilities are included in profit or loss. Accounts payable and accrued liabilities are included within this category.

*Fair values*

Fair values of financial assets and liabilities are based upon quoted market prices available from active markets or are otherwise determined using a variety of valuation techniques and models using quoted market prices.

*Cash and Cash Equivalents*

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

*Reserves*

For the basis of these condensed interim financial statements, proved reserves are those reserves claimed to have certainty (normally at least 90% confidence) of being recoverable under existing economic and political conditions, with existing technology. Probable reserves are attributed to known accumulation, and claim 50% confidence level of recovery. Reserves are determined pursuant to National Instrument 51-101, Standards for Oil and Gas Activities.

*Exploration and Evaluation Assets*

Exploration and evaluation assets comprise the Company's exploration and evaluation projects which are pending determination of proved and probable reserves.

Costs incurred prior to establishing commercial viability and technical feasibility are initially considered to be exploration and evaluation ("E&E") assets. This includes costs such as land and lease acquisition costs, and geological and geophysical costs. E&E costs are not depleted and are carried forward until proved reserves are determined to exist. A review of E&E costs is carried out at least annually to determine if reserves exist. Upon determination of reserves, costs are tested for impairment and reclassified to oil and natural gas assets. If commercial viability and technical feasibility is not established through the determination of proved reserves and there are no future plans for activity, then the E&E

**PanTerra Resource Corp.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
March 31, 2011 and 2010  
(Unaudited)

assets are determined to be impaired and the amounts are expensed and the specific E&E assets derecognized.

*Property, Plant and Equipment*

Oil and Natural Gas Assets

Unless initially classified as E&E assets, all costs directly attributable to the acquisition, exploration and development of oil and natural gas properties are capitalized and are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. These costs include land and lease acquisition costs, geological and geophysical costs, costs of drilling and equipping productive, costs for production facilities, decommissioning costs, and carrying costs. Minor repairs and maintenance costs are expensed as incurred.

Development and production assets are grouped into CGUs for impairment testing.

Oil and natural gas assets are accumulated in cost centres based on cash generating units ("CGU's"). Costs subject to depletion include estimated costs to develop proved plus probable reserves and exclude estimated salvage value. Reserve and production volumes of oil and natural gas are converted to common units on the equivalency basis of six mcf to one barrel of oil, reflecting the approximate relative energy content.

Components and parts (physical and non physical) of an asset having a cost that is significant in relation to the total cost of the asset is identified and separately amortized over their estimated useful lives.

The carrying value of a significant component of property, plant and equipment that is replaced must be derecognized.

Proceeds from the disposition of oil and natural gas properties are credited against accumulated costs of the properties sold and any gains or losses are recognized net within "other income" or "other expenses" in profit or loss in the period when the disposition occurred.

*Depletion and depreciation*

The net carrying value of development and production assets is depleted using the unit of production method based on estimated proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. These estimates are evaluated by independent reserve engineers at least annually.

Other Assets

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.

*Impairment of non-financial assets*

An impairment test will be performed whenever events and circumstances indicate that the carrying value of the asset or CGU may exceed the recoverable amount, unless there is goodwill allocated to the CGU, in which case the impairment test must also be performed at least annually. The recoverable amount is the higher of the value less costs to sell and the value in use. Exploration and evaluation assets are allocated to the CGU they relate to for purposes of impairment testing. If there is indication of an

**PanTerra Resource Corp.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
March 31, 2011 and 2010  
(Unaudited)

impairment loss, the costs carried on the statement of financial position in excess of the recoverable amount are charged to the statement of comprehensive loss.

Impairment losses from prior periods are assessed at each reporting date for indications that the impairment loss no longer exists or has decreased. Impairment losses, other than those related to goodwill, can be reversed if there is a change in the estimates used to determine the recoverable amount. Reversal of impairment losses cannot exceed the carrying value of the asset prior to impairment less any depreciation and depletion that would have been taken if no impairment was recognized.

*Decommissioning Liabilities*

The Company recognizes the estimated fair value of future decommissioning liabilities associated with property and equipment as a liability in the period in which they are incurred, normally when the asset is purchased or developed. Determination of decommissioning liabilities is based on internal and government estimates using current costs and technology in accordance with existing legislation and industry practice and must also estimate timing, a risk free rate and inflation rate in the calculation. These estimates are subject to change over time and, as such, may impact the charge against profit or loss. The liability is recorded at its fair value and is adjusted to its present value in subsequent periods and the amount of the accretion is charged to profit or loss in the period. The associated abandonment and retirement costs are capitalized as part of the carrying amount of the related asset. The capitalized amount is depleted on a unit of production basis in accordance with the Company's depletion policy. Actual decommissioning liabilities settled during the period reduce the decommissioning liability. Changes to assumptions related to future expected costs, risk free rate and timing may have a material impact on the amounts presented.

The total future decommissioning liability was estimated by management based on the Company's net ownership interest in all wells, gathering lines and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in the future periods.

*Joint Interest Activities*

Some of the Company's activities are conducted jointly with others. These condensed interim 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.

*Income Taxes*

Income tax expense represents the sum of current tax and deferred tax expense. Income tax is recognized in net earnings except to the extent it relates to items recognized directly in shareholders' equity, in which case the income tax expense is recognized in shareholders' equity. Current income taxes are measured at the amount, if any, expected to be recoverable from or payable to taxation authorities based on the income tax rates enacted or expected to be enacted at the end of the reporting period.

The Company follows the liability method of accounting for deferred taxes. Under this method, deferred income tax assets or liabilities are recorded to reflect differences between the accounting and tax base of assets and liabilities, and income tax loss carry forwards. Deferred taxes are measured using tax rates that are expected to apply to the period when the deferred tax asset is realized or deferred tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The effect of any changes in tax rate is recognized in net income in the period in which the change occurs or in shareholders' equity, depending on the nature of the item(s) affected by the adjustment.

**PanTerra Resource Corp.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
March 31, 2011 and 2010  
(Unaudited)

Deferred income tax assets and liabilities are not recognized for temporary differences relating to: the initial recognition of goodwill; the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit or loss or taxable profit or loss; certain differences associated with subsidiaries, branches and associates, and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for deductible temporary differences to the extent it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient profits will be available to allow the asset to be recovered.

The Company offsets deferred tax assets and deferred tax liabilities relating to the same taxable entity. The Company may also offset deferred tax assets and deferred tax liabilities relating to different taxable entities, where the amounts relate to income taxes levied by the same taxation authority and the entities intended to realize the assets and settle the liabilities simultaneously.

*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 period. 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.

*Flow-through Shares*

Expenditure deductions for income tax purposes related to exploratory activities funded by flow-through equity instruments are renounced in accordance with income tax legislation. The proceeds from issuance are allocated between the offering of shares and the sale of tax benefits. The allocation is made based on the difference between the quoted price of the existing shares and the amount the investor pays for the shares. A liability is recognized for this difference. The liability is reversed when tax benefits are renounced and deferred tax liability is recognized at that time. Income tax expense is the difference between the amount of the deferred tax liability and the liability recognized on issuance.

*Share-based Payments*

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Company obtains the goods or the counterparty renders the service.

**PanTerra Resource Corp.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
March 31, 2011 and 2010  
(Unaudited)

*Significant accounting judgements and estimates*

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts regarding assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

Reserve estimates including production profiles, future development costs, and discount rates are a critical part of many of the estimated amounts and calculations contained in the financial statements. These estimates are verified by third party professional engineers, who work with information provided by the Company to establish reserve determinations. These determinations are updated at least on an annual basis.

Significant areas of estimation, uncertainty and critical judgments in applying accounting policies that impact the amounts recognized in the interim consolidated financial statements include:

Impairment testing - estimates of reserves, future commodity prices, future costs, production profiles, discount rates, market value of land.

Depletion and depreciation - oil and natural gas reserves, including future prices, costs and reserve base to use on calculation of depletion.

Decommissioning liabilities - estimates relating to amounts, likelihood, timing, inflation and discount rates.

Share-based compensation - forfeiture rates and volatility.

Deferred tax - estimates of reversal of temporary differences, tax rates substantively enacted, and likelihood of assets being realized.

*Recent accounting pronouncements*

**Financial instruments – classification and measurement**

IFRS 9 “Financial Instruments” was issued in November 2009 and as issued reflects the first phase on the work to replace IAS 39 “Financial Instruments: Recognition and Measurement” and applies to the classification and measurement of financial assets. This standard is effective for periods beginning on or after January 1, 2013, with earlier adoption permitted. Subsequent phases will address classification and measurement of financial liabilities, hedge accounting and de-recognition. The Company has not yet assessed the impact of the standard or whether it will adopt the standard early.

International Reporting Standard 10, Consolidated Financial Statements (“IFRS 10”) has been issued and is effective for periods beginning on or after 1 January 2013. This standard will replace all of the existing guidance on control and consolidation in IAS 27, Consolidated and separated financial statements and SIC12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control so the same criteria are applied to all entities to determine control and includes detailed guidance that addresses the different ways in which a reporting entity (investor) might control another entity (investee). The Company does not expect the impact of the standard to be significant.

International Reporting Standard 11, Joint Arrangement (“IFRS 11”) has been issued and is effective for periods beginning on or after 1 January 2013. The new rules are aimed at providing investors with greater clarity about a participant’s involvement in a joint arrangement. The key change in relation to the participant’s contractual rights and obligations arising from their joint arrangements will determine the

**PanTerra Resource Corp.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
 March 31, 2011 and 2010  
 (Unaudited)

accounting under IFRS 11 rather than the arrangement's legal form. The Company does not expect the impact of the standard to be significant.

International Reporting Standard 12, Disclosure of interest in other entities ("IFRS 12") has been issued and is effective for periods beginning on or after 1 January 2013. IFRS 12 sets out the required disclosures for entities reporting under the two new standards IFRS 10 and IFRS 11 Joint arrangements. The new rules also replace the disclosure requirements currently found in IAS 28 Investments in associates. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The Company does not expect the impact of the standard to be significant.

On May 12, 2011, the IASB issued International Reporting Standard 13, Fair value measurements ("IFRS 13"), which establishes a single source of guidance for fair value measurement under IFRSs. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements on when fair value measurement is required; it prescribes how fair value is to be measured if another Standard requires it. IFRS 13 is effective for the Company on January 1, 2013. Early adoption is permitted and the standard is required to be applied prospectively. The Company uses fair value measurements in the preparation of its financial statements and consequently will be subject to the new requirements.

**Note 4 PROPERTY, PLANT AND EQUIPMENT**

	Oil and Natural Gas Assets	Other	Total
<b>Cost</b>			
As at January 1, 2010	\$ 5,085,746	\$ 64,946	\$ 5,150,692
Additions	848,765	10,306	859,071
Dispositions	(277,066)	-	(277,066)
As at December 31, 2010	\$ 5,657,445	\$ 75,252	\$ 5,732,697
<b>Depletion, Depreciation, and Impairment</b>			
As at January 1, 2010	\$ 169,881	\$ 46,615	\$ 216,496
Charge for the period	407,689	6,945	414,634
As at December 31, 2010	\$ 577,570	\$ 53,560	\$ 631,130
<b>Carrying amount as at December 31, 2010</b>	<b>\$ 5,079,875</b>	<b>\$ 21,692</b>	<b>\$ 5,101,567</b>

**PanTerra Resource Corp.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
March 31, 2011 and 2010  
(Unaudited)

**Note 4 PROPERTY, PLANT AND EQUIPMENT (continued)**

	Oil and Natural Gas Assets	Other	Total
<b>Cost</b>			
As at January 1, 2011	\$ 5,657,445	\$ 75,252	\$ 5,732,697
Additions	380,545	-	380,545
Dispositions	(107,307)	-	(107,307)
As at March 31, 2011	\$ 5,930,683	\$ 75,252	\$ 6,005,935
<b>Depletion, Depreciation, and Impairment</b>			
As at January 1, 2011	\$ 577,570	53,560	631,130
Charge for the period	69,938	1,717	71,655
As at March 31, 2011	\$ 647,508	\$ 55,277	\$ 702,785
<b>Carrying amount as at March 31, 2011</b>	<b>\$ 5,283,175</b>	<b>\$ 19,975</b>	<b>\$ 5,303,150</b>

The Company does not capitalize indirect general and administrative overhead costs.

No impairment was recognized in the three months ended March 31, 2011.

Other fixed assets are mainly comprised of office furniture and fixtures, and computer equipment.

**Note 5 EXPLORATION AND EVALUATION ASSETS**

	March 31, 2011	December 31, 2010
Exploration and evaluation assets, beginning of period	\$ 13,145,755	\$ 12,754,218
Additions	239,090	411,709
Dispositions	-	(20,172)
Exploration and evaluation assets, end of the period	\$ 13,384,845	\$ 13,145,755

**PanTerra Resource Corp.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
 March 31, 2011 and 2010  
 (Unaudited)

**Note 6 DECOMMISSIONING LIABILITIES**

The Company's asset retirement and abandonment obligations result from its ownership interest in oil and natural gas assets. The total retirement obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of the decommissioning obligation to be \$969,393 as at March 31, 2011 (December 31, 2010:\$1,076,700) based on an undiscounted total future liability of \$1,401,954 (December 31, 2010:\$1,534,003). These payments are expected to be made over the next 25 years. The discount factor, being the risk free rate related to the liability, is between 3.16 and 3.35 percent. An inflation rate of 1.5 percent over the varying lives of the assets is used to calculate the present value of the asset retirement obligation.

The following table provides a reconciliation of the Company's total asset retirement obligation:

Asset Retirement Obligation	March 31, 2011	January 1, 2010
Asset retirement obligation, beginning of period	\$ 1,452,995	\$ 1,408,316
Liabilities settled	-	(78,783)
Revisions due to change in discount rate	(107,307)	47,625
Accretion expense	19,024	75,837
Asset retirement obligation, end of period	\$ 1,364,712	\$ 1,452,995

**PanTerra Resource Corp.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
 March 31, 2011 and 2010  
 (Unaudited)

**Note 7 SHARE CAPITAL**

<b>a) Shares</b>	<b>Period Ended March 31, 2011</b>		<b>Year Ended December 31, 2010</b>	
	Shares	Amount	Shares	Amount
<b>i) Authorized</b>				
Unlimited number of common shares				
Unlimited number of preferred shares				
<b>ii) Issued common shares</b>				
Balance, beginning of year	25,581,591	\$27,834,347	12,870,983	\$25,938,583
Private placement proceeds	1,250,000	250,000	12,710,608	\$2,176,946
Share issue costs	-	-	-	(281,182)
	26,831,591	28,084,347	25,581,591	27,834,347
<b>b) Warrants</b>				
Balance, beginning of year	3,216,415	205,100	-	-
Issued with private placement	-	-	2,856,415	309,620
Issued to agents	-	-	360,000	-
Share issue costs	-	-	-	(104,520)
Balance, end of period	3,216,415	205,100	3,216,415	205,100
Balance shares and w arrants, end of period		\$28,289,447		\$28,039,447

On January 26, 2011 the Company closed a private placement financing comprised of 1,250,000 common shares at a price of \$0.20 per share for gross proceeds of \$250,000.

On December 29, 2010 the Company closed a private placement financing of 2,777,778 common shares at a price of \$0.18 per share for gross proceeds of \$500,000.

On July 30, 2010 the Company closed a private placement financing comprised of 4,220,000 common flow-through shares of the Company at a price of \$0.25 per share and 5,712,830 units of the Company at a price of \$0.20 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 exercised into one common share of the Company at a price of \$0.40 per share for a period of two years following the date of closing. Proceeds realized by the Company from the offering totaled \$2,197,566, of which \$2,113,498 was received in cash. Commissions paid on the private placements totaled \$385,702, of which \$165,661 was paid in cash, \$39,022 was settled through issuance of agent warrants, \$96,951 was settled through agent options and \$84,066 was settled through issuance of common shares.

**c) Options**

The Company has a Stock Option Plan whereby the Board of Directors is authorized to approve 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. The options are non-transferable and expire ninety days after the optionee ceases to be an "eligible person", or one year after the death or disability of the optionee. At March 31, 2011, 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.

**PanTerra Resource Corp.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
 March 31, 2011 and 2010  
 (Unaudited)

As at March 31, 2011 and December 31, 2010, the Company had the following stock options outstanding:

Outstanding options	2011			2010		
	Number of Options	Weighted Average Remaining Life	Weighted Average exercise price	Number of Options	Weighted Average Remaining Life	Weighted Average exercise price
Outstanding, beginning of period	<b>2,285,000</b>	<b>3.48</b>	<b>\$ 0.23</b>	1,108,000		\$ 1.26
Granted	<b>1,270,000</b>		<b>0.21</b>	1,170,000		0.26
Agents options				720,000		0.20
Expired or cancelled	<b>(360,000)</b>		<b>0.24</b>	(713,000)		1.84
Outstanding, end of period	<b>3,195,000</b>	<b>3.79</b>	<b>0.22</b>	2,285,000	3.48	0.23
Exercisable, at end of period	<b>1,673,317</b>	<b>3.08</b>	<b>\$ 0.22</b>	1,406,655	2.85	\$ 0.22

Effective January 11, 2011 the Company granted to certain officers, directors and employees share options for the purchase of 990,000 shares for a period of five years at \$0.21 per share.

Effective March 25, 2011 the Company granted to certain officers, directors and employees share options for the purchase of 280,000 shares for a period of five years at \$0.225 per share.

The Company recorded share based compensation for the period ended March 31, 2011 in the amount of \$269,036 (2010 – \$74,593) for stock options granted or vested during the period. A fair value of \$309,620 was attributed to the warrants issued on the private placements issued during the year ended December 31, 2010. The fair value of stock options and warrants granted, averaging \$0.184 (2010 - \$0.346) per award, was estimated using the Black-Scholes option pricing model with the following assumptions:

	2011	2010
Risk-free rate	2.26%	2.30%
Expected life	2 to 5	2 to 5
Expected volatility	130%	129%
Expected dividend yield	0%	0%
Expected Forfeitures	4.32%	4.32%

**PanTerra Resource Corp.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
 March 31, 2011 and 2010  
 (Unaudited)

**d) Warrants**

As at March 31, 2011 and December 31, 2010 the Company had the following warrants outstanding:

	March 31, 2011		December 31, 2010	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	3,216,415	\$ 0.40	-	-
Issued w ith private placement	-	-	2,856,415	\$ 0.40
Issued agents w arrants	-	-	360,000	0.40
Outstanding, end of period	3,216,415	\$ 0.40	3,216,415	\$ 0.40

The following table summarizes information about the warrants outstanding at March 31, 2011

	Exercise Price Range	Warrants Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number of Warrants Currently Exercisable
Share purchase w arrants	\$ 0.40	2,856,415	1.33	\$ 0.40	2,856,415
Agents w arrants	\$ 0.40	360,000	1.33	\$ 0.40	360,000
	\$ 0.40	3,216,415	1.33	\$ 0.40	3,216,415

**e) Contributed surplus**

The following table reconciles the Company's contributed surplus:

	March 31, 2011	December 31, 2010
Balance, beginning of period	\$ 3,761,310	\$ 3,325,890
Share based compensation expense	269,036	299,447
Fair value of w arrants issued to agents	-	39,022
Fair value transfer re agents options	-	96,951
Balance, end of period	\$ 4,030,346	\$ 3,761,310

**PanTerra Resource Corp.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
 March 31, 2011 and 2010  
 (Unaudited)

**f) Loss per share**

For the period ended March 31, 2011, the basic and diluted weighted average number of shares is 26,735,701 (2010 – 12,870,983).

As a result of the net loss for the period ended March 31, 2011, 3,195,000 options (2010 – 2,285,000) and 3,216,415 warrants (2010 – nil) outstanding have not been excluded in the calculation of diluted loss per share because to do so would have been anti-dilutive.

	March 31 2011	March 31 2010
Weighted average number of common shares		
Basic	26,735,701	12,870,983
Diluted	26,735,701	12,870,983

**Note 8 CHANGE IN NON-CASH WORKING CAPITAL**

	2011	2010
Accounts receivable	12,146	(41,816)
Prepaid expenses, assets held for sale and deposits	(8,101)	(28,600)
Accounts payable and accrued liabilities	66,379	147,132
	70,424	76,716

**Note 9 FINANCIAL INSTRUMENTS, RISK MANAGEMENT**

The Company's financial instruments include cash and cash equivalents, trade and other receivables, and accounts payable and accrued liabilities. The carrying value and fair value of these financial instruments at March 31, 2011 disclosed below by financial instrument classification.

**(a) Fair values of financial assets and liabilities**

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.

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.

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

**PanTerra Resource Corp.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
 March 31, 2011 and 2010  
 (Unaudited)

Level 1 assumptions are used to value cash and cash equivalents.

**(b) Financial risk factors**

*Credit risk*

Credit risk is the risk of financial loss to a company if a customer or counterparty 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 25<sup>th</sup> 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.

The carrying amount of accounts receivable and cash and cash equivalents represent the Company's maximum credit exposure.

PanTerra's accounts receivables are aged as follows:

As at	March 31, 2011	December 31, 2010	January 1, 2010
Not past due	\$ 125,310	\$ 138,301	\$ 176,534
Past due – not impaired	1,366	521	948
Total	\$ 126,676	\$ 138,822	\$ 177,482

*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 statement of financial position are consist of accounts payable and accrued liabilities. The Company anticipates it will have adequate liquidity to fund its financial liabilities through issuing share capital and operations.

*Market risk*

Market risk is the risk that changes in market prices, such as currency exchange rate risk, commodity price risk and interest rate 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.

*Currency exchange rate 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.

PanTerra is exposed to fluctuations in the exchange rate between the Canadian dollar and the US dollar. Crude oil, and to a certain extent, natural gas prices are based upon reference prices denominated in US dollars, while the majority of the Company's expenses are denominated in Canadian dollars.

**PanTerra Resource Corp.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
 March 31, 2011 and 2010  
 (Unaudited)

*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 as 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 period ended March 31, 2011.

If production remained constant and the Company realized prices changed by \$1.00 per barrel of oil equivalent, the Company net loss would be vary by \$4,015 during the period ended March 31, 2011 (\$8,232 – March 31, 2010).

*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 10 CAPITAL MANAGEMENT**

The Company's policy is to maintain a strong and stable 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 11 RELATED PARTY TRANSACTIONS**

Included in general and administrative expenses for the period ended March 31, 2011, are consulting fees of \$55,971 (2010 - \$60,000) paid to companies controlled by officers of the Company. In addition legal fees of \$26,274 (2010 - \$21,201) were paid to a law firm of which the Company's corporate secretary is a partner. Of these related party amounts, \$19,557 (2010 - \$13,365) were payable as of March 31, 2011.

Compensation of key management personnel:

Three months ended March 31	2011		2010	
Compensation	\$	63,764	\$	76,901
Share-based payments		267,237		61,250
	\$	331,001	\$	138,151

**Note 12 COMMITMENTS**

The Company has a lease for office premises which expires June 30, 2011. The future minimum payments on the lease amount to \$9,516 plus operating costs and taxes (see Note 13).

**PanTerra Resource Corp.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
March 31, 2011 and 2010  
(Unaudited)

The Company has renewed the lease for an additional five years beginning July 1, 2011 at the same rate as the former lease.

At March 31, 2011 PanTerra has commitments to incur expenditure of \$700,000 in relation to flow-through shares issued in July, 2010. These expenses must be incurred by December 31, 2011.

Of the approximately \$20 million investment in petroleum and natural gas property and equipment, approximately \$8 million was expended on the Saskatchewan permits. All of the expenditures have now been approved enabling PanTerra to retain up to 25% of the land over these permits. The Company has applied to continue selected land as leases pursuant to applicable law.

**Note 13 SUBSEQUENT EVENTS**

On April 1, 2011 the Company concluded an agreement with Canadian Western Bank for a revolving Operating Demand Loan for a maximum amount of \$750,000 and a Non-Revolving Acquisition/Development Demand Loan for a maximum amount of \$250,000.

Effective May 27, 2011 the Company granted to certain officers, directors and employees share options for the purchase of 300,000 shares for a period of five years at \$0.22 per share.

Effective July 1, 2011 the Company extended the lease on the offices premises for an additional five years at the same rate as the former lease. The future minimum payments on this new lease amount to \$190,320 plus operating costs and taxes.

**Note 14 TRANSITION TO IFRS**

The adoption of IFRS requires the application of IFRS 1. IFRS 1 generally requires that an entity retrospectively apply all IFRS effective at the end of its first IFRS reporting period; however IFRS 1 provides certain mandatory exceptions and permits limited optional exemptions. Certain IFRS 1 optional exemptions have been applied including:

Deemed cost exemption for full cost oil and gas entities whereby exploration and evaluation assets were classified from the full cost pool to intangible exploration assets at the amount that was recorded under previous GAAP and the remaining full cost pool was allocated to the development assets and components pro rata using reserve volumes.

Decommissioning obligations exemption that allows any changes in decommissioning obligations on transition to IFRS to be adjusted through opening deficit.

Stock-based compensation exemption that allows a company to only have to evaluate share based compensation awards that were unvested as of the date of transition and that were issued subsequent to November 7, 2002.

The accounting policies in note 3 have been applied in preparing the condensed interim financial statements for the three months ended March 31, 2011, the comparative information for the three months ended March 31, 2010, the financial statements for the year ended December 31, 2010 and the preparation of the opening IFRS balance sheet at January 1, 2010, the IFRS.

In preparing its opening IFRS balance sheet, comparative information for the three months ended March 31, 2010 and financial statements for the year ended December 31, 2010, the Company adjusted amounts previously reported in financial statements prepared in accordance with former Canadian GAAP.

**PanTerra Resource Corp.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
March 31, 2011 and 2010  
(Unaudited)

The effect of the Company's transition to IFRS, described in Note 1, is summarized in this note. In accordance with IFRS 1 "First-time adoption of IFRS", certain disclosures relating to the transition are also provided in this note.

IFRS 1 allows first time adopters of IFRS to elect a number of optional exemptions from the general principle of retrospective application of IFRS. The Company has taken the following optional exemptions:

**Oil and Gas Exemption**

In July 2009, IASB published as an amendment to IFRS 1 "Additional Exemptions for First-time Adopters", which introduces a first-time adoption exemption for first-time adopters that accounted under their previous GAAP for exploration and development costs for oil and gas properties in the development or production phases in cost centers that include all properties in a large geographical area (defined as full cost method under Canadian GAAP). Under the exemption, a first-time adopter may elect to measure oil and gas assets at the date of transition to IFRS on a deemed cost basis, but does not permit continued application of the previous GAAP accounting policy. The Company followed a full cost approach under GAAP and has elected to use this election to measure oil and gas exploration and production assets at the date of transition to IFRS on a deemed cost basis.

**Share based payments**

Under Canadian GAAP, the Company recognized as expense related to their share-based payments on a straight-line basis through the date of full vesting and did not incorporate a forfeiture multiple. Under IFRS, the Company is required to recognize the expense using graded vesting and estimate a forfeiture rate.

The Company elected an IFRS 1 exemption for all options issued whereby share-based compensation expense and contributed surplus for options that vested prior to the transition date were not required to be restated. As a result of applying graded vesting and a forfeiture rate to options that were not fully vested prior to the transition an adjustment of \$2,885 to contributed surplus and retained earnings was recorded.

For the three months ended March 31, 2010 the impact of using the graded vesting resulted in a decrease in stock based compensation and contributed surplus of \$4,372. The impact on this for the year ended December 31, 2010 was an increase of \$25,119.

**Decommissioning Liabilities**

An entity that uses the deemed cost oil and gas exemption under IFRS 1 may also use an additional exemption with respect to decommissioning liabilities on oil and gas properties encompassed by the full cost method under Canadian GAAP. As the Company has elected to apply the deemed cost oil and gas exemption, the Company has also elected to apply this exemption and as such, the Company has re-measured the decommissioning liability as at January, 2010 under IAS 37 provisions, and has recognized directly into deficit any differences between that amount and the carrying amount of the liabilities at January 1, 2010 as determined by Canadian GAAP.

March 31, 2011 is the Company's first reporting period under IFRS. Accounting standards effective for periods beginning on or after January 1, 2011 have been adopted as part of the transition to IFRS.

These interim condensed financial statements are the Company's first under IFRS.

An explanation of how the transition from previous Canadian GAAP to IFRS has financial performance and cash flows is set out in the following tables and the notes accompanying the tables.

**PanTerra Resource Corp.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
 March 31, 2011 and 2010  
 (Unaudited)

**Reconciliation of statement of financial position from Canadian GAAP to IFRS:**

	01-Jan-10			31-Mar-10			31-Dec-10		
	Canadian GAAP	Adj.	IFRS	Canadian GAAP	Adj.	IFRS	Canadian GAAP	Adj.	IFRS
<b>ASSETS</b>									
<b>Current</b>									
Cash and cash equivalents	\$ 315,170		315,170	\$ 159,228		159,228	\$ 1,306,759		1,306,759
Accounts receivable	177,482		177,482	219,298		219,298	138,822		138,822
Deposits for land leases	183,541		183,541	183,541		183,541			
Prepaid expenses	94,438		94,438	123,038		123,038	32,630		32,630
	770,631		770,631	685,105		685,105	1,478,211		1,478,211
Property and equipment (note E)	4,654,059	280,137	4,934,196	4,502,282	386,328	4,888,610	4,499,024	602,543	5,101,567
Exploration and evaluation assets (note A and C)	12,915,593	(161,375)	12,754,218	12,901,318	(161,375)	12,739,943	13,307,130	(161,375)	13,145,755
Deffered tax assets									
	\$ 18,340,283	118,762	18,459,045	\$ 18,088,705	224,953	18,313,658	\$ 19,284,365	441,168	19,725,533
<b>LIABILITIES</b>									
<b>Current</b>									
Account payable and accrued liabilities	\$ 181,297		181,297	\$ 328,427		328,427	\$ 359,723		359,723
Premium liability								211,000	211,000
Asset retirement obligation	1,128,179	280,137	1,408,316	1,157,195	275,365	1,432,560	1,170,997	281,998	1,452,995
	1,309,476	280,137	1,589,613	1,485,622	275,365	1,760,987	1,530,720	492,998	2,023,718
<b>SHAREHOLDER'S EQUITY</b>									
Share capital	24,843,300	1,095,283	25,938,583	24,843,300	1,095,283	25,938,583	27,155,164	884,283	28,039,447
Contributed surplus (note F)	3,323,005	2,885	3,325,890	3,401,970	(1,487)	3,400,483	3,733,306	28,004	3,761,310
Deficit	(11,135,498)	(1,259,543)	(12,395,041)	(11,642,187)	(1,144,208)	(12,786,395)	(13,134,825)	(964,117)	(14,098,942)
	17,030,807	(161,375)	16,869,432	16,603,083	(50,412)	16,552,671	17,753,645	(51,830)	17,701,815
	\$ 18,340,283	118,762	18,459,045	\$ 18,088,705	224,953	18,313,658	\$ 19,284,365	441,168	19,725,533

**PanTerra Resource Corp.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
 March 31, 2011 and 2010  
 (Unaudited)

**Reconciliation of comprehensive income**

	March 31, 2010				December 31, 2010			
	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Revenue</b>								
Petroleum and natural gas sales		\$ 446,256		\$ 446,256		\$ 1,300,364		\$ 1,300,364
Royalties		(56,895)		(56,895)		(142,453)		(142,453)
Petroleum and natural gas revenue, net royalties		389,361		389,361		1,157,911		1,157,911
<b>Expenses</b>								
Operating		328,668		328,668		1,155,254		1,155,254
General and administrative		249,778		249,778		983,406		983,406
Depletion and depreciation	D	209,630	(110,964)	98,666	D	748,015	(211,780)	536,235
Gain on disposal of assets					G		(63,000)	(63,000)
Accretion of assets retirement obligation		29,016		29,016			(45,764)	(45,764)
Share based compensation	F	78,965	(4,372)	74,593	F	274,328	25,119	299,447
		896,057	(115,336)	780,721		3,161,003	(295,425)	2,865,578
Interest income		6		6		3,765		3,765
Loss before taxes		(506,690)	115,336	(391,354)		(1,999,327)	295,425	(1,703,902)
Deferred taxes	A				A			
<b>Total comprehensive loss for the period</b>		\$ (506,690)	115,336	\$ (391,354)		\$ (1,999,327)	295,425	\$ (1,703,902)

(A) Under IFRS, all deferred tax assets and liabilities are classified as long-term. Under previous GAAP, deferred tax assets and liabilities were presented according to the classification of the underlying asset or liability that created the difference in the deferred tax amount.

Any changes to income tax reporting are predominantly caused by changes in the carrying value of assets, not due to the change in income tax accounting methodology, with the exception of flow-through shares. IFRS requires that all deferred taxes be disclosed as non-current assets or liabilities and designated as deferred taxes. The effect on deferred income tax liabilities of the implementation to IFRS is as follows:

	January 1, 2010	March 31, 2010	December 31, 2010
Decrease in tax liabilities due to changes to carrying value of net assets	\$ (30,878)	\$ (64,423)	\$ (114,704)
Decrease in tax liabilities due to increase in decommissioning provision	(72,836)	(71,595)	(73,319)
Deferred tax assets not recognized	103,714	136,018	188,023
<b>IFRS deferred tax liabilities</b>	\$ -	\$ -	\$ -

**PanTerra Resource Corp.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
March 31, 2011 and 2010  
(Unaudited)

- (B) Exploration and Evaluation assets ("E&E") – As required under IFRS 6, PanTerra reclassified \$12,754,218 from Property Plant and Equipment ("PP&E") to (E&E), at transition, \$14,275 at March 31, 2010 and \$405,812 at December 31, 2010.
- (C) Under IFRS, impairment tests for PP&E are performed at a CGU level as opposed to the entire Company's PP&E balance being subjected to a full cost ceiling test under previous GAAP. Impairment is recognized if the carrying value exceeds the recoverable amount for a CGU. The recoverable amount is determined using the greater of the fair value less costs to sell based on discounted future cash flows of proved plus probable reserves using forecast process and costs, and the value in use. Upon transition to IFRS, PanTerra recognized \$161,375 impairment which was charged to the operating deficit.
- (D) Depletion and depreciation expense – Under IFRS Company has chosen to calculate depletion expense based on proved plus probable reserves as opposed to proved reserves under previous GAAP. This has resulted in a reduction of depletion and depreciation expense of \$211,780 in 2010 (March 31, 2010 - \$101,991)
- (E) Decommissioning obligations – Under previous GAAP, PanTerra decommissioning obligations were discounted on a credit adjusted risk-free rate of 7% at December 31, 2009. Under IFRS, the Company is required to revalue its obligation at each balance sheet date using a current liability-specific discount rate. At transition, PanTerra revaluated the obligation based on a risk-free rate of 3.6% resulting in a \$280,137 increase to the liability with the offset charged to deficit. A further change in the discount rate at March 31, 2010 resulted in a revaluation to increase the liability by \$4,200. As a result of the change in the discount rate applied, accretion of decommissioning obligation expense increased by \$281,988 for the year ended December 31, 2010 (March 31, 2010 - \$275,364).
- (F) Under previous GAAP, PanTerra expensed stock-based compensation on a straight-line basis. Under IFRS, share-based payments are expensed based on a graded vesting schedule. Company also incorporated a forfeiture multiplier rather than accounting for forfeiture as they occur as currently practices under previous GAAP. The adjustment to contributed surplus to account for the graded vesting and forfeitures was an increase of \$2,885 with the offset being charged to deficit. This resulted in \$4,372 change for the three months ended March 31, 2010 and a \$25,119 increase to stock-based compensation expense for the year ended December 31, 2010.
- (G) Divestitures – Under previous GAAP, proceeds from divestitures were deducted from the full cost pool without recognition of a gain or loss unless the divestiture resulted in a change in the depletion rate of 20% or greater in which case, a gain or loss was recorded. Under IFRS, gains and losses are recorded on divestitures and are calculated as the difference between the proceeds and the net book value of the asset disposed of. For the year ended December 31, 2010 the Company recorded a \$63,000 (March 31, 2010 – nil) gain on disposition of oil and gas properties for IFRS as compared to nil under previous GAAP.
- (H) Cash flow statement – Upon transition to IFRS, there were no significant changes to the operating, investing and financing cash flows.