

# **PanTerra Resource Corp.**

## **FINANCIAL STATEMENTS**

**For the three and nine months ended September 30, 2009 and 2008**

**THE ACCOMPANYING FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2009 AND 2008 HAVE NOT BEEN REVIEWED BY THE CORPORATION'S AUDITORS**

**PANTERRA RESOURCE CORP.**  
**BALANCE SHEETS**  
As at September 30, 2009 and December 31, 2008

	2009	2008
	(unaudited)	(audited)
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents (Note 5)	\$ 1,646,851	\$ 3,205,158
Accounts receivable	120,640	39,638
Deposits for land leases (Note 6)	237,591	183,541
Inventory	103,613	-
Prepaid expenses	72,563	42,101
	2,181,258	3,470,438
<b>Property and equipment (Note 6)</b>	16,016,606	11,878,163
	\$ 18,197,864	\$ 15,348,601
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 235,476	\$ 165,130
<b>Future income taxes</b>	173,432	-
<b>Asset retirement obligation (Note 8)</b>	896,642	320,175
	1,305,550	485,305
<b>Commitments (Note 9)</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 10)	25,414,126	22,949,402
Contributed surplus (Note 10e)	2,336,599	1,975,728
Deficit	(10,858,411)	(10,061,834)
	16,892,314	14,863,296
	\$ 18,197,864	\$ 15,348,601

On behalf of the board

*Fred Rumak*

Director

*David Halpin*

Director

**PANTERRA RESOURCE CORP.**  
**STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT**  
**Periods ended September 30**

	2009	2008	2009	2008
	3 months	3 months	9 months	9 months
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>REVENUE</b>				
Oil and gas revenue	\$ 104,656	\$ -	\$ 104,656	\$ -
Royalties	(11,292)	-	(11,292)	-
Interest	677	27,755	8,099	48,836
	94,041	27,755	101,463	48,836
<b>EXPENSES</b>				
Operating	53,268	-	53,268	-
Depletion, depreciation and accretion (Note 6)	23,086	10,251	39,334	30,123
Stock-based compensation	90,277	134,714	360,871	558,455
Salaries and consulting fees	113,771	112,382	334,511	302,375
Office and administration	76,945	95,548	201,889	277,726
Professional fees	18,525	103,811	66,669	177,758
Investor communications	23,338	1,837	54,685	34,362
Transfer agent fees	1,218	2,410	4,319	7,129
Interest and bank charges	7,721	150	25,968	734
Overhead recovery	(1,747)	(350)	(7,811)	(8,851)
	406,402	460,753	1,133,703	1,379,811
<b>LOSS BEFORE INCOME TAXES</b>	(312,361)	(432,998)	(1,032,240)	(1,330,975)
Future income tax recovery (Note 7)	-	-	235,663	11,063
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>	(312,361)	(432,998)	(796,577)	(1,319,912)
<b>DEFICIT, BEGINNING OF PERIOD</b>	(10,546,050)	(9,619,512)	(10,061,834)	(8,732,598)
<b>DEFICIT, END OF PERIOD</b>	\$(10,858,411)	\$ (10,052,510)	\$ (10,858,411)	\$ (10,052,510)
<b>Net loss per share - basic and diluted</b>	\$ (0.002)	\$ (0.004)	\$ (0.006)	\$ (0.015)
<b>Weighted average number of common shares - basic and diluted</b>	128,710,620	99,951,104	128,710,620	90,521,755

See accompanying notes to the financials statements

**PANTERRA RESOURCE CORP.**  
**STATEMENTS OF CASH FLOWS**  
Periods ended September 30

	2009	2008	2009	2008
	3 months	3 months	9 months	9 months
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>CASH FLOWS PROVIDED BY (USED IN)</b>				
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (312,361)	\$ (432,998)	\$ (796,577)	\$ (1,319,912)
Add items not affecting cash				
Stock based compensation	20,277	134,714	360,871	558,455
Future income tax recovery	-	-	(235,663)	(11,063)
Depreciation, depletion and accretion	23,086	10,252	39,334	30,123
	(268,998)	(288,032)	(632,036)	(742,397)
Net changes in non-cash working capital items:				
Accounts receivable	(113,616)	(77,146)	(81,002)	(39,638)
Prepaid expenses	(44,461)	(9,946)	(30,462)	(19,082)
Inventory	(103,613)	-	(103,613)	-
Accounts payable and accrued liabilities	95,954	(262,083)	95,297	(507,885)
	(165,736)	(349,175)	(119,780)	(566,605)
	(434,734)	(637,207)	(751,816)	(1,309,002)
<b>INVESTING ACTIVITIES</b>				
Additions to property and equipment	(3,202,662)	(1,438,318)	(3,601,309)	(1,781,568)
Refund of land deposits	-	-	183,541	235,632
Land deposits remitted	(183,541)	(183,541)	(237,591)	(183,541)
Changes in non-cash working capital (Note 5)	82,671	286,131	(24,950)	-
	(3,303,532)	(1,335,728)	(3,680,309)	(1,729,477)
<b>FINANCING ACTIVITIES</b>				
Increase in other short term deposits	-	843,280	-	(2,316,500)
Shares issued	2,873,819	1,320,333	2,873,819	5,955,666
	2,873,819	2,163,613	2,873,819	3,639,166
<b>INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	(864,447)	190,678	(1,558,307)	600,687
<b>CASH &amp; CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	2,441,298	1,177,227	3,205,158	767,218
<b>CASH &amp; CASH EQUIVALENTS, END OF PERIOD</b>	\$ 1,576,851	1,367,905	\$ 1,646,851	\$ 1,367,905
<b>CASH AND EQUIVALENTS IS COMPRISED OF:</b>				
Cash in bank	\$ 22,038	\$ 75,054	\$ 22,038	\$ 75,054
Term deposits 90 days or under	1,624,813	1,292,851	1,624,813	1,292,851
	\$ 1,646,851	\$ 1,367,905	\$ 1,646,851	\$ 1,367,905

See accompanying notes to the financials statements

**PanTerra Resources Corp**  
**NOTES TO THE FINANCIAL STATEMENTS**

For the three and nine months ended September 30, 2009 and 2008  
(unaudited)

**NOTE 1. NATURE OF OPERATIONS**

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

**NOTE 2. UNAUDITED INTERIM FINANCIAL STATEMENTS**

The unaudited interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") for interim information. Accordingly, they do not contain all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included. These unaudited interim financial statements follow the accounting policies stated in the Company's year end audited financial statements as at December 31, 2008 and should be read in conjunction with the year end audited financial statements. Changes in accounting policies are in Note 4 below. Operating results for the three and nine month periods ended September 30, 2009 are not necessarily indicative of the results that can be expected for the year ended December 31, 2009 or other future periods.

**NOTE 3. 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 September 30, 2009, the Company has working capital of \$1,945,782 (2008 – \$3,959,483), an accumulated deficit of \$10,858,411 (2008 – \$10,052,510) and shareholders' equity of \$16,892,314 (2008 – \$14,681,988). 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.

**NOTE 4. ACCOUNTING POLICIES** *Recent accounting pronouncements*

Canadian public companies will be required to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, for financial years beginning on or after January 1, 2011. Effective January 1, 2011, the Company will adopt IFRS as the basis for preparing financial statements. PanTerra will issue financial results for the quarter ended March 31, 2011 prepared on an IFRS basis and will also provide comparative data on an IFRS basis, including an opening balance sheet as at January 1, 2010.

In order to meet the requirements of transition to IFRS, PanTerra has begun the education phase and during 2009 will be doing the IFRS diagnostic assessment. By January 1, 2010 the Company will be in a position to convert its financials to IFRS so that the comparative numbers will be available for the 2011 financials. Due to anticipated changes in International Accounting Standards prior to transition to IFRS, PanTerra is not currently in a position to determine the impact on its financial results.

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

**PanTerra Resources Corp**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the three and nine months ended September 30, 2009 and 2008  
(unaudited)

**Revenue Recognition**

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

**Financial Instruments, hedges and comprehensive income**

The accounting standards for financial instruments require that all financial assets and liabilities, including derivatives, are classified as: held for trading, held to maturity, available for sale assets, loans and receivables or other financial liabilities. Additional disclosure for financial instruments is set out in Note 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 September 30, 2009 and 2008, 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.

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 from financial instruments and how the Company manages those risks.

Accounting standards for hedges specify 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 period 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 comprehensive loss during the periods ended September 30, 2009 and 2008; 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.

**PanTerra Resources Corp**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**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.

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

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.

**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 in the statement of loss and deficit. 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.

**PanTerra Resources Corp**  
**NOTES TO THE FINANCIAL STATEMENTS**

For the three and nine months ended September 30, 2009 and 2008  
(unaudited)

**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 GAAP 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.

**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.

**PanTerra Resources Corp**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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(unaudited)

**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.

**Capital disclosures**

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.

**NOTE 5. CASH EQUIVALENTS**

Cash equivalents include \$1,624,813 in term deposits, which are invested for a term of thirty days and earn interest at an annual rate of 0.14% to 0.15% (2008 – \$1,292,851 of term deposits at rates of 2.60% to 2.95%).

**NOTE 6. PROPERTY AND EQUIPMENT**

	September 30, 2009			December 31, 2008		
	Cost	Accumulated depletion and depreciation	Net Book Value	Cost	Accumulated depletion and depreciation	Net Book Value
Petroleum and natural gas property and equipment	\$ 16,011,490	\$ 11,633	\$ 15,999,857	\$ 11,861,573	\$ -	\$ 11,861,573
Automotive, office equipment and furniture	62,997	46,248	16,749	65,817	49,227	16,590
	<u>\$ 16,074,487</u>	<u>\$ 57,881</u>	<u>\$ 16,016,606</u>	<u>\$ 11,927,390</u>	<u>\$ 49,227</u>	<u>\$ 11,878,163</u>

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

**PanTerra Resources Corp**  
**NOTES TO THE FINANCIAL STATEMENTS**

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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 the nine month period ended September 30, 2009, deposits paid net of refunds received, amounted to \$54,050.

At September 30, 2009, deposits in the amount of \$237,591 (December 31, 2008 \$183,541), in relation to petroleum and natural gas properties, are held by the Province of Saskatchewan and 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.

**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 29.0% (2008 – 31.5%) to the loss before tax for the nine months periods ended September 30 as follows:

Future Income Taxes	2009	2008
Loss before income taxes	\$ (1,032,240)	\$ (897,977)
Anticipated income tax recovery	(299,350)	(282,863)
Increase (decrease) resulting from		
Stock-based compensation	104,653	133,478
Meals and entertainment	326	785
Changes in statutory enacted tax rates	8,437	57,750
Expiration of non-capital loss carry forward	54,849	32,780
Share issue costs	(53,513)	(94,386)
Previously unrecognized future tax assets	-	(11,063)
Change in valuation allowance	(51,065)	152,456
Future income tax recovery	\$ (235,663)	\$ (11,063)

The components of the Company's future income tax liability at September 30, 2009 and December 31, 2008 are as follows:

	2009	2008
Future tax assets (liabilities)		
Property and equipment	\$(1,738,743)	\$ (1,207,605)
Asset retirement obligation	233,127	83,246
Non capital losses carried forward	1,319,123	1,162,252
Share issue costs	136,153	184,130
Eligible capital expenditures	2,925	2,925
Other capital assets		-
	\$ (47,415)	\$ 224,948
Valuation allowance	(126,017)	(224,948)
	\$ (173,432)	\$ -

**PanTerra Resources Corp**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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(unaudited)

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

	Loss	Year of expiry
	\$ 129,525	2010
	133,552	2014
	855,280	2015
	829,297	2026
	1,045,987	2027
	1,265,597	2028
	814,311	2029

**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.

	September, 2009	December, 2008
Asset retirement obligation, beginning of period	\$ 320,175	\$ 296,459
Liabilities acquired	551,395	\$ -
Accretion expense	25,072	23,716
Asset retirement obligation, end of period	\$ 896,642	\$ 320,175

The undiscounted amount of cash flows to settle the obligation is \$360,000 for the Saskatchewan properties and \$910,000 for the Alberta properties. The obligation was calculated using a credit-adjusted risk free discount rate of 8.00 and 7.00 percent respectively and an inflation rate of 2.00 and 1.5 percent respectively over various periods of time depending on the estimated dates of abandonment. It is expected that this obligation will be funded from Company resources at the time the costs are incurred.

**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	\$	8,166
2010	\$	<u>16,332</u>
		<u>24,498</u>

There are no lease commitments after 2010.

Of the \$16,016,606 investment in Petroleum and natural gas property and equipment, \$7,921,116 was expended on the Saskatchewan permits. There is approximately \$546,000 of unapproved expenditures remaining, at \$4.00 per hectare, which must be spent in order to retain these exploration permits. \$201,000 of this amount has been spent to date, but will only be approved, once we submit the expenditures to the Saskatchewan Government, on the respective anniversary dates of the permits. At expiration of these permits in early to late 2010, the Company can apply to continue them as leases pursuant to applicable law.

At September 30, 2009 the Company has commitments to incur expenditures of \$493,000 in relation to flow-through shares issued in 2008. These expenses must be incurred by December 31, 2009.

**PanTerra Resources Corp**  
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(unaudited)

**NOTE 10. SHARE CAPITAL**

**a) Shares**

i) Authorized

Unlimited number of common shares

Unlimited number of preferred shares

ii) Issued common shares

	Period Ended		Year Ended	
	September 30, 2009		December 31, 2008	
	Shares	Amount	Shares	Amount
Balance, beginning of period	85,807,080	\$22,061,282	66,644,080	\$16,842,776
Private placement proceeds	-	-	15,953,000	4,295,480
Issued in exchange for producing properties	42,903,540	2,874,537		
Issued in exchange for overriding royalty rights	-	-	2,200,000	1,320,000
Issued on exercise of options and warrants	-	-	1,010,000	219,100
Transfer from contributed surplus on exercise of options	-	-	-	162,022
Effect of tax renunciation on flow-through shares	-	(409,095)	-	(11,063)
Share issue costs	-	(718)	-	(767,033)
Balance, end of period	<u>128,710,620</u>	<u>24,526,006</u>	<u>85,807,080</u>	<u>22,061,282</u>
<b>b) Warrants</b>				
Balance, beginning of period	7,109,741	888,120	-	-
Add warrants issued with private placement	-	-	5,833,500	704,720
Add warrants issued to Agents	-	-	1,276,241	183,400
Balance, end of period	<u>7,109,741</u>	<u>888,120</u>	<u>7,109,741</u>	<u>888,120</u>
Balance shares and warrants, end of period		<u>25,414,126</u>		<u>22,949,402</u>

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 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 one-half 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 September 30, 2009, there were 128,710,620 rights authorized and issued. No event has occurred allowing the rights to be exercised in accordance with the shareholders rights plan.

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**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 September 30, 2009, there were no shares authorized or reserved for stock option grants other than for the options outstanding at that date as disclosed in the table below.

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

Exercise Price Range	Options Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price (Outstanding)	Number of Options Currently Exercisable	Weighted Average Exercise Price (Exercisable)
\$0.10 to \$0.19	3,555,000	4.58	0.10	913,661	0.11
\$0.20 to \$0.29	1,710,000	0.60	0.27	1,493,333	0.26
\$0.30 to \$0.39	940,000	3.65	0.34	626,666	0.34
\$0.40 to \$0.50	1,200,000	3.65	0.43	799,999	0.43
	7,405,000	3.39	0.22	3,833,659	0.27

The Company recorded stock based compensation in the amount of \$360,871 (2008 – \$558,455) for stock options granted or vested during the period. The fair value of stock options, averaging \$0.060 per option was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2009	2008
Risk-free rate	2.04%	3.18 - 3.35%
Expected life	5	3
Expected volatility	130%	121%
Expected dividend yield	0%	0%

**d) Warrants**

As at September 30, 2009 and December 31, 2008 the Company had the following warrants outstanding:

	Period ended September 30, 2009		Year ended December 31, 2008	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	7,109,741	0.38	-	-
Issued share purchase warrants	-	-	5,833,500	0.40
Issued agents warrants	-	-	1,276,241	0.30
Outstanding, end of period	7,109,741	0.38	7,109,741	0.38

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The following table summarizes information about the warrants outstanding at September 30, 2009

	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	0.13	0.40	5,833,500
Agents warrants	0.30	1,276,241	0.13	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:

	September 30 2009	December 31 2008
Balance, beginning of period	\$ 1,975,728	\$ 1,388,663
Stock based compensation expense	360,871	749,087
Transfer to share capital on exercise of options		(162,022)
Balance, end of period	\$ 2,336,599	\$ 1,975,728

**f) Loss per share**

For the period ended September 30, 2009 and 2008, the basic and diluted weighted average number of shares is 128,710,620.

As a result of the net loss for the year ended September 30, 2009, 7,405,000 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.

	2009	2008
Total Options Outstanding	7,405,000	6,740,000
Total Warrants Outstanding	7,109,741	7,109,741
	14,514,741	13,849,741

**NOTE 11. FINANCIAL INSTRUMENTS, RISK MANAGEMENT**

**(a) 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, GST receivable from the federal government and some receivables from petroleum marketers.

The portion of the Company's accounts receivable that is with entities in the petroleum and natural gas sector are subject to normal industry risk. The primary source of credit risk for the Company arises from petroleum and natural gas marketers. The Company generally grants unsecured credit, but routinely assesses the financial strength of its customers. As at September 30, 2009 the Company had \$108,327 receivable from these sources, all current.

The Company considers the risk of default from these parties to be low.

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**(b) 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.

**(c) Market risk**

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

*Commodity price risk*

Commodity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by the relationship between the Canadian and US dollar as well world economic events dictating the levels of supply and demand. The Company did not have any financial instruments in place to manage commodity prices during the nine months ended September 30, 2009

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 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 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 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 six months ended September 30, 2009, are consulting fees of \$180,000 (2008 - \$144,000) paid to companies controlled by officers of the Company. In addition legal fees of \$54,494 (2008 - \$72,260) were paid to a law firm of which the Company's corporate secretary is a partner. A major portion of the 2008 legal fees were for the cancelled 2007 financing.

**NOTE 14. SUBSEQUENT EVENTS**

The Company recently acquired three sections of land with two producing wells and one shut in well in East Central Alberta. In addition PanTerra has farmed-in on two exploratory prospects, a gas prospect in East Central Alberta and an oil prospect in Southern Alberta. Both wells are expected to be drilled by the end of 2009.

On October 13, 2009, at a Special General meeting of the shareholders, the Company consolidated its capital on a 10 old for 1 new basis. 128,710,620 old shares have become 12,870,983 new shares. There is a difference of 79 shares on the consolidation because of rounding.

**NOTE 15. COMPARATIVE FIGURES**

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