

PanTerra Resource Corp.

FINANCIAL STATEMENTS

September 30, 2011

**THE ACCOMPANYING FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2011 and 2010 HAVE NOT BEEN REVIEWED BY THE CORPORATION'S AUDITORS**

REPORT DATE: November 24, 2011

PANTERRA RESOURCE CORP.

Condensed Interim Statement of Financial Position
(Unaudited)

	Note	September 30, 2011	December 31, 2010
Assets			
Cash and cash equivalents		\$ -	\$ 1,306,759
Trade and other receivables		304,711	138,822
Deposits and prepaid expenses		51,260	32,630
Total current assets		355,971	1,478,211
Property, plant and equipment	5	6,811,425	5,101,567
Exploration and evaluation assets	6	13,425,554	13,145,755
Total non-current assets		20,236,979	18,247,322
Total assets		\$ 20,592,950	\$ 19,725,533
Liabilities			
Accounts payable and accrued liabilities		\$ 1,113,767	\$ 359,723
Bank debt		576,653	-
Premium liability		-	211,000
Total current liabilities		1,690,420	570,723
Decommissioning liability	7	1,525,790	1,452,995
Total non-current liabilities		1,525,790	1,452,995
Total liabilities		3,216,210	2,023,718
Shareholders' Equity			
Share capital	8	28,289,447	28,039,447
Contributed surplus	8	4,134,468	3,761,310
Deficit		(15,047,175)	(14,098,942)
Total shareholders' equity		17,376,740	17,701,815
<i>Going concern (note 2)</i>			
<i>Commitments (note 12)</i>			
<i>Subsequent events (note 13)</i>			
Total liabilities and equity		\$ 20,592,950	\$ 19,725,533

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

PANTERRA RESOURCE CORP.

Condensed Interim Statement of Comprehensive Loss

For the three and nine months ended September 30, 2011, with comparative figures for 2010
(Unaudited)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2011	2010	2011	2010
Oil and natural gas revenue		\$354,435	\$224,142	\$893,556	\$894,394
Other income		400	-	4,150	6
Total Revenue		354,835	224,142	897,706	894,400
Production and operating expenses		175,986	288,609	693,943	917,470
Depletion, depreciation and amortization	5	127,285	76,992	295,907	274,085
General and administrative expenses		198,634	331,756	1,020,720	943,434
Total expenses		501,906	697,357	2,010,569	2,134,989
Finance income		896	(1,149)	(3,188)	(647)
Finance expense	7	12,204	18,440	49,556	58,514
Net finance expenses		13,100	17,291	46,368	57,867
Loss before income tax		(160,171)	(490,506)	(1,159,232)	(1,298,456)
Income tax reduction					
Deferred tax		-	-	211,000	-
Total comprehensive loss for the period attributable to common shareholders		\$(160,171)	\$(490,506)	\$(948,232)	\$(1,298,456)
Loss per share					
Basic		(\$0.01)	(\$0.05)	(\$0.04)	(\$0.07)
Diluted		(\$0.01)	(\$0.05)	(\$0.04)	(\$0.07)

The accompanying notes are an integral part of these condensed interim 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	Cotributed 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	8	1,250,000		250,000					250,000
Share based payments	8						373,158		373,158
Loss and comprehensive loss								(948,232)	(948,232)
Balance September 30, 2011		26,831,591	3,216,415	\$29,992,692	\$(1,908,345)	\$ 205,100	\$4,134,468	\$(15,047,174)	\$17,376,741
Balance January 1, 2010		12,870,983	-	\$27,422,204	\$(1,483,622)	\$ -	\$3,325,890	\$(12,395,040)	\$16,869,432
Issue of common shares		9,977,890		1,728,677	(381,680)				1,346,997
Issue of warrants			3,598,945			605,341			605,341
Share based payments	8						270,745		270,745
Loss and comprehensive loss								(1,298,456)	(1,298,456)
Balance September 30, 2010		22,848,873	3,598,945	\$29,150,881	\$(1,865,302)	\$ 605,341	\$3,596,635	\$(13,693,496)	\$17,794,059

PANTERRA RESOURCE CORP.

Condensed Interim Statement of Cash Flows

For the nine months ended September 30, 2011, with comparative figures for 2010

(Unaudited)

	Note	2011	2010
Cash Flows from operating activities:			
Total comprehensive loss for the period		(\$948,232)	(\$1,298,456)
Adjustments for:			
Depletion, depreciation and amortization	5	295,907	274,085
Net finance expenses (including accretion)	7	49,556	58,514
Gain on sale of property, plant and equipment		(3,750)	-
Stock based compensation	8	373,157	270,746
Income taxes		(211,000)	-
Change in non-cash working capital	9	569,525	135,187
Net cash (used in)/provided by operating activities		\$125,163	(559,924)
Cash flows from investing activities:			
Property, plant and equipment expenditures		(1,185,636)	(494,643)
Proceeds from sale of property, plant and equipment		22,500	232,680
Additions to intangible exploration assets	6	(1,095,439)	-
Net cash used in investing activities		(2,258,575)	(261,963)
Cash flows from financing activities:			
Proceeds from issue of share capital	8	250,000	1,952,337
Net cash from financing activities		250,000	1,952,337
Change in cash and cash equivalents		(1,883,412)	\$1,130,450
Cash and cash equivalents beginning of period		1,306,759	315,170
Cash and cash equivalents end of period		(576,653)	\$1,445,620

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

PANTERRA RESOURCE CORP.

Condensed Interim Statement of Cash Flows

For the three months ended September 30, 2011, with comparative figures for 2010

(Unaudited)

	Note	2011	2010
Cash Flows from operating activities:			
Total comprehensive loss for the period		(\$160,171)	(\$490,506)
Adjustments for:			
Depletion, depreciation and amortization	5	127,285	76,991
Net finance expenses (including accretion)	7	12,204	18,441
Gain on sale of property, plant and equipment			-
Stock based compensation	8	23,189	128,909
Income taxes			-
Change in non-cash working capital	9	318,483	14,364
Net cash (used in)/provided by operating activities		\$320,990	(251,801)
Cash flows from investing activities:			
Property, plant and equipment expenditures		(680,419)	(383,030)
Proceeds from sale of property, plant and equipment			-
Additions to intangible exploration assets	6	(553,665)	-
Net cash used in investing activities		(1,234,084)	(383,030)
Cash flows from financing activities:			
Proceeds from issue of share capital	8		1,952,337
Net cash from financing activities		-	1,952,337
Change in cash and cash equivalents		(913,094)	\$1,317,506
Cash and cash equivalents beginning of period		336,441	128,114
Cash and cash equivalents end of period		(576,653)	\$1,445,620

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

PanTerra Resource Corp.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
September 30, 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 – 7th Avenue S.W. Calgary, AB, T2P 2T5. The condensed interim financial statements were authorized for issuance by the Board of Directors on November 24, 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 has 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. 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 15, 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 as well as the Company’s 2011 first quarter financial statements. Note 15 discloses information on the transition to IFRS effective for the period ended September 30, 2011 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 \$948,232 for the period ended September 30, 2011. As of September 30, 2011, the Company has working capital deficiency of \$(1,334,449) (2010 – \$907,488), and an accumulated deficit of \$15,047,174 (2010 – \$14,098,942). 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
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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.

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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

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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

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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.

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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.

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Significant accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgments, 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

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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 BANK DEBT

The Company maintains a covenant based revolving credit facility of \$3,000,000 and non-revolving acquisition/development demand loan of \$750,000 with Canadian Western Bank. The current term for the facility ends May 1, 2012 and can be extended for an additional year, subject to approval by the lender. The credit facility bears interest rate at prime plus 1.5%. The facilities are secured by a general security agreement over all of the Company's assets and the Company must maintain a working capital ratio of greater than 1 to 1 at all times. Working capital for purpose of the credit facility is defined by the lender as current assets plus undrawn availability to current assets.

Note 5 PROPERTY, PLANT AND EQUIPMENT

	Oil and Natural Gas Assets	Other	Total
Cost			
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
Depletion, Depretiation, and Impairment			
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
Carrying amount as at December 31, 2010	\$ 5,079,875	\$ 21,692	\$ 5,101,567

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Note 5 PROPERTY, PLANT AND EQUIPMENT (continued)

	Oil and Natural Gas Assets	Other	Total
Cost			
As at January 1, 2011	\$ 5,657,445	\$ 75,252	\$ 5,732,697
Additions	1,286,524	11,041	1,297,565
Transfer to property, plant and equipment	815,640		815,640
Dispositions	(107,441)		(107,441)
As at September 30, 2011	\$ 7,652,168	\$ 86,293	\$ 7,738,461
Depletion, Depretiation, and Impairment			
As at January 1, 2011	\$ 577,570	53,560	631,130
Charge for the period	290,783	5,124	295,907
As at September 30, 2011	\$ 868,353	\$ 58,684	\$ 927,037
Carrying amount as at September 30, 2011	\$ 6,783,815	\$ 27,609	\$ 6,811,424

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

No impairment was recognized in nine months ended September 30, 2011.

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

Note 6 EXPLORATION AND EVALUATION ASSETS

	September 30, 2011	December 31, 2010
Exploration and evaluation assets, beginning of period	\$ 13,145,755	\$ 12,754,219
Additions	1,095,439	411,708
Dispositions	-	(20,172)
Transfers to property, plant and equipment	(815,640)	-
Exploration and evaluation assets, end of the period	\$ 13,425,554	\$ 13,145,755

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Note 7 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 \$1,099,938 as at September 30, 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 2.15 and 3.11 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:

Decommissioning Obligations	September 30, 2011	January 1, 2011
Decommissioning obligations, beginning of period	\$ 1,452,995	\$ 1,408,316
Liabilities settled	-	(78,783)
Revisions due to change in discount rate	23,238	47,625
Accretion expense	49,556	75,837
Decommissioning obligations, end of period	\$ 1,525,789	\$ 1,452,995

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Note 8 SHARE CAPITAL

Shares	Period Ended September 30, 2011		Year Ended December 31, 2010	
	Shares	Amount	Shares	Amount
i) Authorized				
Unlimited number of common shares				
Unlimited number of preferred shares				
ii) Issued common shares				
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)
	<u>26,831,591</u>	<u>28,084,347</u>	<u>25,581,591</u>	<u>27,834,347</u>
Warrants				
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	<u>3,216,415</u>	<u>205,100</u>	<u>3,216,415</u>	<u>205,100</u>
Balance shares and warrants, end of period		<u>\$28,289,447</u>		<u>\$28,039,447</u>

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. 1,000,000 shares were issued to related parties.

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 September 30, 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.

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As at September 30, 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	2,285,000	3.48	\$ 0.23	1,108,000		\$ 1.26
Granted	1,570,000		0.21	1,170,000		0.26
Agents options				720,000		0.20
Expired or cancelled	(670,000)		0.24	(713,000)		1.84
Outstanding, end of period	3,185,000	3.37	0.22	2,285,000	3.48	0.23
Exercisable, at end of period	2,846,660	3.33	\$ 0.22	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.

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.

The Company recorded share based compensation for the period ended September 30, 2011 in the amount of \$373,158 (2010 – \$270,745) 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 \$0.189 (2010 - \$0.273) per award, was estimated using the Black-Scholes option pricing model with the following assumptions:

	2011	2010
Risk-free rate	2.27%	1.76%
Expected life	2 to 5	5
Expected volatility	130%	173%
Expected dividend yield	0%	0%
Expected Forfeitures	4.32%	4.32%

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d) Warrants					
As at September 30, 2011 and December 31, 2010 the Company had the following warrants outstanding:					
	September 30, 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 with private placement	-	-		2,856,415	\$ 0.40
Issued agents warrants	-	-		360,000	0.40
Outstanding, end of period	3,216,415	\$ 0.40		3,216,415	\$ 0.40

	Exercise Price Range	Warrants Outstanding	Weighted Average Remaining	Weighted Average Exercise	Number of Warrants Currently
Share purchase w warrants	\$ 0.40	2,856,415	0.83	\$ 0.40	2,856,415
Agents w warrants	\$ 0.40	360,000	0.83	\$ 0.40	360,000
	\$ 0.40	3,216,415	0.83	\$ 0.40	3,216,415

e) Contributed surplus

The following table reconciles the Company's contributed surplus:

	September 30, 2011	December 31, 2010
Balance, beginning of period	\$ 3,761,310	\$ 3,325,890
Stock- based compensation expense	373,158	299,447
Fair value of w arrants issued to agents	-	39,022
Fair value transfer re agents options	-	96,951
Balance, end of period	\$ 4,134,468	\$ 3,761,310

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f) Loss per share

For the period ended September 30, 2011, the basic and diluted weighted average number of shares is 26,707,965 (2010 – 19,595,213).

As a result of the net loss for the period ended September 30, 2011, 3,185,000 options (2010 – 1,188,000) and 3,216,415 warrants (2010 – nil) outstanding have not been included in the calculation of diluted loss per share because to do so would have been anti-dilutive.

	September 30 2011	September 30 2010
Weighted average number of common shares		
Basic	26,707,965	19,595,213
Diluted	26,707,965	19,595,213

Note 9 CHANGE IN NON-CASH WORKING CAPITAL

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Accounts receivable	(98,100)	(5,064)	(165,889)	52,271
Prepaid expenses, assets held for sale and deposits	5,167	8,108	(18,630)	66,180
Accounts payable and accrued liabilities	411,416	11,320	754,044	16,736
	318,483	14,364	569,525	135,187

Note 10 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 September 30, 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.

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

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 25th day of the month following production. The Company historically has not experienced collection issues with its petroleum and natural gas marketers. The Company does not obtain collateral from petroleum and natural gas marketers. In addition the Company has financial instruments including cash and term deposits in Canadian chartered banks, interest receivable from the same banks and GST receivable from the federal government. The Company considers the risk of default from these parties to be low.

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	September 30, 2011	December 31, 2010	January 1, 2010
Not past due	\$ 304,711	\$ 138,301	\$ 176,534
Past due – not impaired		521	948
Total	\$ 304,711	\$ 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 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.

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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.

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 September 30, 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 \$15,384 during the period ended September 30, 2011 (\$19,028 – September 30, 2010).

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on outstanding bank debt fluctuates with the interest rates posted by bank. PanTerra is exposed to interest rate risk and has not entered into any mitigating interest rate hedges or swaps. Had the borrowing rate been 100 basis points higher or lower during nine months ended September 30, 2011, net loss would have been affected by \$250 before tax based on the average bank debt balance outstanding during the period.

Note 11 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 12 RELATED PARTY TRANSACTIONS

Included in general and administrative expenses for the period ended September 30, 2011, are consulting fees of \$279,753 (2010 - \$201,112) paid to companies controlled by officers of the Company. In addition legal fees of \$28,356 (2010 - \$26,853) were paid to a law firm of which the Company's corporate secretary is a partner. Of these related party amounts, \$14,479 (2010 - none) were payable as of September 30, 2011.

Compensation of key management personnel:

Nine months ended September 30	2011		2010	
Compensation	\$	315,851	\$	296,171
Share-based payments		319,875		225,679
	\$	<u>635,726</u>	\$	<u>521,850</u>

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Note 13 COMMITMENTS

At September 30, 2011 PanTerra has no commitments to incur in relation to flow-through shares issued in July, 2010.

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 14 SUBSEQUENT EVENTS

Effective July 1, 2011 the Company renewed 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 15 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 nine months ended September 30, 2011, the comparative information for the nine months ended September 30, 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 nine months ended September 30, 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.

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:

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Oil and Gas Exemption

In July 2009, IASB published as 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 nine months ended September 30, 2010 the impact of using the graded vesting resulted in an increase in stock based compensation and contributed surplus of \$15,395. 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.

September 30, 2011 is the Company’s third 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 third 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 (pre-changeover GAAP/IFRS reconciliation for December 2010 and January 2010 were presented in Q1 financial statements).

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

				30-Sep-10
ASSETS		Canadian GAAP	Adj.	IFRS
Current				
Cash and cash equivalents	\$	1,445,620		1,445,620
Accounts receivable		125,212		125,212
Deposits for land leases		183,541		183,541
Prepaid expenses		28,257		28,257
		1,782,630		1,782,630
Property and equipment		17,325,993	607,838	4,637,587
Exploration and evaluation assets			(161,375)	13,134,869
	\$	19,108,623	446,463	19,555,086
LIABILITIES				
Current				
Account payable and accrued liabilities	\$	198,033		198,033
Asset retirement obligation		1,223,530	339,464	1,562,994
		1,421,563	339,464	1,761,027
SHAREHOLDER'S EQUITY				
Share capital		26,795,637	1,095,283	27,890,920
Contributed surplus		3,578,355	18,280	3,596,635
Deficit		(12,686,932)	(1,006,564)	(13,693,496)
		17,687,060	106,999	17,794,059
	\$	19,108,623	446,463	19,555,086

PanTerra Resource Corp.
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Reconciliation of comprehensive income – three months ended September 30, 2010

	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue			
Petroleum and natural gas sales	\$ 256,281		\$ 256,281
Royalties	(32,139)		(32,139)
Petroleum and natural gas revenue, net royalties	224,142		224,142
Expenses			
Operating	288,609		288,609
General and administrative	202,212		202,212
Depletion and depreciation	118,118	(41,125)	76,993
Accretion of assets retirement obligation	31,188	(12,746)	18,442
Share based compensation	121,131	7,776	128,907
	761,258	(46,095)	715,163
Interest income	514		514
Loss before taxes	(536,602)	46,095	(490,507)
Total comprehensive loss for the period	\$ (536,602)	46,095	\$ (490,507)

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Reconciliation of comprehensive income – nine months ended September 30, 2010

	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue			
Petroleum and natural gas sales	\$ 1,030,389		\$ 1,030,389
Royalties	(135,995)		(135,995)
Petroleum and natural gas revenue, net royalties	894,394		894,394
Expenses			
Operating	917,470		917,470
General and administrative	672,689		672,689
Depletion and depreciation	505,623	(231,537)	274,086
Gain on disposal of assets			
Accretion of assets retirement obligation	95,351	(36,837)	58,514
Share based compensation	255,350	15,395	270,745
	2,446,483	(252,979)	2,193,504
Interest income	654		654
Loss before taxes	(1,551,435)	252,979	(1,298,456)
Total comprehensive loss for the period	\$ (1,551,435)	252,979	\$ (1,298,456)

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- (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	June 30, 2010	September 30, 2010	December 31, 2010
Decrease in tax liabilities due to changes in carrying value of net assets	(30,878)	(64,423)	(95,110)	(116,080)	(114,704)
Decrease in tax liabilities due to increase in decommissioning provision	(72,836)	(71,595)	(81,296)	(88,261)	(73,319)
Change in valuation allowance	103,714	136,018	176,406	204,341	188,023
Increase in deferred tax liabilities	-	-	-	-	-
Canadian GAAP future tax liabilities	-	-	-	-	-
IFRS deferred tax liabilities	-	-	-	-	-

- (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, \$380,651 at September 30, 2010 and \$391,537 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 (September 30, 2010 - \$231,537)
- (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 reevaluate its obligation at each balance sheet date using a current liability-specific discount rate. At transition, PanTerra revaluated the obligation based on a risk-

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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 September 30, 2010 resulted in a revaluation to increase the liability by \$154,678. As a result of the change in the discount rate applied, accretion of decommissioning obligation expense decreased by \$45,764 for the year ended December 31, 2010 (September 30, 2010 - \$36,837).

- (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 \$15,395 change for the nine months ended September 30, 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 (September 30, 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.

PanTerra Resource Corp

Management's Discussion and Analysis

Q3 2011

Report Date: November 24, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") for PanTerra Resource Corp. ("PanTerra" or the "Company") is a review of the Company's financial and operating results for the period ended September 30, 2011 as compared with the same period for 2010. These 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. 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"). All amounts are in Canadian dollars unless otherwise noted.

This MD&A contains forward-looking statements relating to future events or future performance. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates" and similar expressions. These statements represent management's expectations or beliefs concerning, among other things, future operating results and various components thereof for the economic performance of PanTerra. The projections, estimates, and beliefs contained in such forward-looking statements necessarily involve known and unknown risks and uncertainties, including the business risks discussed in the MD&A as at and for the years ended December 31, 2010 and 2009, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted.

Overview

The Company's principal business is the acquisition, exploration and development of conventional and unconventional oil and gas properties in Western Canada. Exploration activities are risky and exploration projects may not result in commercially economic production. PanTerra has interests in four development properties and three exploration properties. In addition to oil and gas revenue, the Company relies on the issuance of treasury shares to fund its property acquisitions and exploration. Such share issuances are influenced by the exploration climate, underlying commodity markets, and general stock market conditions, the Company's track record as well as the quality of its management team.

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

Results of Operations

The Company owns two oil producing properties and two gas producing properties. These properties generated \$897,706 in revenue to the Company during the period ended September 30, 2011 (2010 - \$894,400). Expenses for the year consist primarily of field operating expenses, general and administrative ("G&A") expenses and consulting fees. For the period ended September 30, 2011 and 2010, the Company recorded net losses before income taxes of \$948,232 and \$1,298,456 respectively. The Company had future income tax recoveries available of \$435,029 for 2009 due to recognition of certain non-capital losses carried forward that had previously been subject to a valuation allowance. These future income tax recoveries resulted in a net comprehensive loss for 2010 of \$1,999,327 and \$1,073,664 for 2009.

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.

On December 29, 2010, the Company closed a private placement financing of 2,777,728 common shares at a price of \$0.18 per share for gross proceeds of \$500,000.

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. 1,000,000 shares were issued to related parties.

Major charges for 2011 were \$693,943 for field operating expenses (2010 - \$917,470) \$304,312 (2010 - \$334,784) for consulting fees, \$373,158 (2010 - \$270,745) for stock-based compensation, \$198,005 (2010 - \$188,704) for office and administration expense, and \$136,442 for professional fees (2010 - \$92,676). In addition, the Company spent \$2,281,075 (2010 - \$494,643) on property and equipment and disposed of a property for \$22,500 (2010 - \$232,680).

The Company wishes to point out that although production and operation expenses were considerable for the nine months of 2011, it is now poised to show considerable improvement in operating revenue due to both increased oil and gas production and reduced operating expenses. The Company has upgraded its facilities at Carrot Creek and Tomahawk, Alberta which will see the elimination of certain trucking costs, greatly reduced downtime, and reduced energy consumption because of recent facility electrification.

Revenue decreased \$838 from 2010 to 2011 because of a pipeline break at Carrot Creek which shut in production for about four months, and there was extra inventory at Tomahawk at the end of June, 2011 because bad weather prevented it from being hauled to market. Operating expenses decreased \$223,527 from 2010 to 2011 mainly because of high costs in 2010 for a bottom hole pump repair, high fuel and power costs, and a rental generator which we had on an interim basis.

The increase in G&A expenses for the period ended September 30, 2011 compared to 2010 was comprised of the following: Stock-based compensation increased \$102,413 as a result of 1,570,000 options granted in the first half of 2011 compared to 100,000 in 2010, and because options are now vesting immediately upon granting rather than over two years. Consulting fees decreased \$58,829 because of two fewer consultants on staff, Office and administration increased \$9,300 due to the result of computer costs, bank fees, filing fees, and insurance. Professional fees increased \$43,766 because of additional audit fees resulting from the new IFRS reporting and higher engineering evaluation costs. In addition, transfer agent fees and shareholder reporting costs decreased by \$20,288 because of additional costs incurred in 2010 for printing and mailing reports for our annual general meeting.

OPERATIONS

Carrot Creek, Alberta

In 2009 the Company acquired three sections of land at Carrot Creek in Twps 52 and 53 Rge 13 W5M. The property consisted of a total of ten wells, one producing Cardium oil well and nine shut-in potential Cardium oil wells. PanTerra acquired this property recognizing the development potential. The Company subsequently acquired a further 320 acres in late 2009 and the fall of 2010. In the spring of 2011, the Company acquired a further 320 acres increasing their total holdings at Carrot Creek to 2,240 acres. In late 2009, the company re-activated the 16-1 well which is currently producing 16 BOPD. Electrical service has been connected to this well to eliminate the cost associated with a rental diesel powered generator. Electrification is underway at the 6-12 well to reduce maintenance costs and eliminate the use of fuel to run the pump jack. In the late spring of 2011, the Company re-activated another previously shut-in well located at 16-11-53-13W5M which flowed to surface at rates of 286 BOPD and 749 mscf/day. The well was tied-in in late August. The well failed to flow. Production from this well commenced late September at 10 BOPD with a very high fluid level after a small gas powered rental pumping unit was installed. PanTerra plans to bring in electric service and install high volume electrically powered pumping equipment in this well as soon as possible to produce this well at its capability. Installation of the electric service typically takes several months. Current production on the property averages 30 BOPD from three wells.

Optimization Work

A water source well that had been dormant for several years is currently in the process of being re-activated. An application to re-license the well has been granted by Alberta Environment November 17, 2011. The well will be re-activated December, 2011. The re-activation of the water source well will enhance the present water-flood and restore the original reservoir pressure and thus increase production. A WaveFront tool has been installed as of September 22nd in the water injection well to further stimulate the water-flood process and thereby increase recovery factors. PanTerra also plans to re-enter the 4-7 well and construct a pipeline to connect it to the central battery, install high volume pumping equipment in the 6-12 well, and potentially reactivate the 8-12 well when the make-up water from the water source well has re-pressured the pool.

Waterflood Expansion

The Company is also planning to expand the water flood into two nearby pools. In the spring of 2011, PanTerra acquired a further 320 acres (previously reported) in what the Company calls its NW Pool. A number of seismic lines have been purchased and re-interpreted to determine the placement of future injection and production wells and the viability of infill wells of which several may be necessary to realize the pool's full potential. Development of a water flood in these pools will mainly involve re-entry, equipping and connecting existing wells to a battery to be constructed in a central location, which is modeled after our current south pool development.

Tomahawk, Alberta

The Company has a 100% working interest in 4.6 sections of land with six producing oil wells at Tomahawk situated in Twp 52, Rges 5 and 6 W5M. Production from this property is from the Nordegg and Banff formations. Current production from this property is averaging 65 BOPD. Future plans are to construct flow-lines between the producing oil wells to eliminate trucking costs and increase netbacks. Electrification has been installed at the Tomahawk battery.

Development Drilling

A comprehensive geological and geophysical evaluation has identified significant development potential at the west and east pools at Tomahawk. 65 km of 2D seismic were acquired and reprocessed as part of this evaluation. PanTerra has commenced development of this potential. Mineral rights were secured at the west end of the project and a step out well has been successfully drilled and completed. This well was completed in the Lower Nordegg and put on production at 20 BOPD. The Middle and Upper Nordegg were perforated in mid-November. Comingled production from all zones is 24 BOPD. Costs of the step-out well were funded using the remaining funds from last year's flow through share issue. The positive outcome of the step out well will add significant net cash flow to the Company and triggers numerous offset drilling locations. The Company is currently securing surface locations for three development wells at the east end of the pool. The well licenses are pending and drilling of the three development wells is anticipated during the third quarter of 2012. PanTerra has identified potential to drill up to seventeen development locations at Tomahawk.

Gadsby, Alberta

In 2009 the Company acquired three sections of land with three producing gas wells in east central Alberta in Twp 37 Rges 19 and 20 W4M. Current production is averaging 60 Mcf/day as one well has been shut in due to low gas prices and one well has been abandoned.

Kirkpatrick Lake, Alberta

In late 2009, the Company farmed in on three sections of land with a 19.25% net working interest. A successful Viking gas well was drilled and is currently on stream. A second lower zone flowed medium grade oil. This lower zone is currently being mapped for follow-up locations. Current net production is averaging 10 Mcf/day.

Saskatchewan Shale Gas Properties

The Company has been in discussions with two entities that are interested in purchasing and operating the Saskatchewan Shale Gas project with PanTerra possibly retaining a carried interest or a casing point election.

Foam Lake, Saskatchewan

The Company owns a 100% working interest in selected leases covering 64 sq. miles or 40,960 acres that represent selected high graded acreage the Company was allowed to retain as part of the Exploratory Permit process. This land is centered on Twp 35 Range 6 W 2 M in eastern Saskatchewan. To date the Company has drilled 17 wells at Foam Lake. Additional testing, fracture stimulations, and a possible geophysical program have been analyzed. An additional 50 kms of seismic was acquired in July 2010 to explore for a deeper Devonian prospect that has been identified on PanTerra lands. On adjacent lands another operator has recently drilled a deep Devonian test well offsetting PanTerra lands. That operator identified as recently as August 22 that the well is being acidized and the presence of oil is indicated. The Company will be monitoring developments in this area.

Moose Jaw, Saskatchewan

The Company owns a 100% working interest in selected leases covering 96.25 sq. miles or 61,600 acres that represent selected high graded acreage the Company was allowed to retain as part of the Exploratory Permit process. This land is centered on Twp 24 Range 29 W 2 M in central Saskatchewan. To date 16 wells have been drilled, logged and cased. In the fall of 2008, the Company undertook a geophysical program shooting 36 miles of 2-D seismic and gathered another 12.5 square miles of other geophysical data. These programs revealed extensive faulting at the Colorado shale level, indicating that horizontal drilling may be the key to unlocking the Company's shale gas potential. The seismic also indicated several interesting Jurassic, Mississippian and Devonian anomalies. The Devonian anomalies are in the form of numerous reef build-ups in the Winnipegosis formation. The west side of the Moose Jaw property lies on the eastern flank of the Elbow sub-basin which was developed at the same geological time as the central portion of the Williston Basin and due to its location may contain Bakken oil potential. There are several townships in this area where the Bakken is present and the Company is currently evaluating this zone on its land for drilling and farm-out possibilities.

Shell Lake, Saskatchewan

The Company owns a 100% working interest in approximately 15 sections (9,600 acres) that represent selected high graded acreage the Company was allowed to retain as part of the Exploratory Permit process. To date three wells have been drilled and cased. Further evaluation will take place at such time that commodity prices increase sufficiently to justify the necessary expenditure.

RESERVES

Because of its success in re-activating a well at Carrot Creek, the Company commissioned its engineering firm Sproule Associates to re-evaluate its holdings as of June 30, 2011. This re-evaluation resulted in the Company increasing its NPV (10%) by an additional 33% to \$15,940,000, as compared to its December 31, 2010 evaluation. It should be noted that this number does not include any value for our recently completed well at Tomahawk, as this work took place after the date of this report.

2011 June 30	Oil M Bbl	Gas MMscf	Sol'n gas MMscf	NGL's Mbbbl	Total MBOE	NPV 10%
Proved	251.6	88.0	68.0	-	277.7	\$6,261,000
Probable	405.4	39.0	22.0	0.1	415.7	\$9,679,000
Proved plus probable	657.0	127.0	90.0	0.1	693.4	\$15,940,000
2010 December 31	Oil	Gas	Sol'n gas MMcf	NGL's Mbbbl	Total Mboe	NPV 10%
Proved	226.3	101.0	-	-	243.1	\$4,010,000
Probable	344.2	40.0	-	0.1	351.0	7,965,000.0
Proved plus probable	570.5	141.0	-	0.1	594.1	\$11,975,000

Discovered Resources (Saskatchewan Only)

The Saskatchewan properties were evaluated and reviewed by Sproule Associates Ltd. of Calgary as of December 31, 2007 and there have been no material changes to the properties since that date. Sproule prepared a report in accordance with National Instrument 51-101, in which it assigned the Company raw gas-in-place in the category "Discovered Resources". Discovered Resources are disclosed as in-place volumes, rather than recoverable volumes. The Company's Discovered Resources have not yet been shown to be either technically or economically recoverable. The Company will monitor gas prices in the near future to determine the opportune time to further exploit its Saskatchewan properties.

FINANCIAL RESULTS

Selected Annual and Quarterly Information

The following table discloses selected financial information from the third quarter and years 2010, 2009 and 2008

	2011	2010	2009	2008
Revenue	\$898	\$1,162	\$304	Nil
Net (loss) and comprehensive (loss)	(\$948)	(\$1,661)	(\$1,074)	(\$1,329)
Net loss per share basic and fully diluted	\$0.04	\$0.10	\$0.11	\$0.02
Total assets	\$20,593	\$19,814	\$18,340	\$15,349
Working capital	\$(1,334)	\$1,118	\$589	\$3,305
Long term debt	577	Nil	Nil	Nil
Capital expenditure on capital assets	\$2,281	\$863	\$1,874	\$844
Weighted average common shares outstanding - basic	26,708	17,200	10,015	7,848
Weighted average common shares outstanding - fully diluted	26,708	17,200	10,146	7,848
Common shares outstanding	26,831	25,582	12,871	8,581
Stock options outstanding	3,185	2,285	1,108	611
Warrants outstanding	3,216	3,216	Nil	711

Summary of Quarterly Results

The following table summarizes information derived from the Company's financial statements for the first, second, and third quarter of 2011, each of the four quarters of 2010, and the last quarter of 2009.

	2011			2010				2009
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	\$355	\$316	\$223	\$264	\$224	\$281	\$389	\$210
Loss before income tax	(160)	(430)	(358)	(405)	(491)	(417)	(391)	(477)
Income Tax Recovery	-	-	-	-	-	-	-	199
Net Income (Loss)	(\$160)	(430)	(358)	(405)	(491)	(417)	(391)	(278)
Loss per share								
Basic	(0.006)	(0.016)	(0.013)	(0.014)	(0.024)	(0.031)	(0.028)	(0.030)
Fully diluted	(0.005)	(0.014)	(0.011)	(0.011)	(0.019)	(0.029)	(0.026)	(0.028)

Liquidity and Capital Resources

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. At September 30, 2011, the Company had working capital deficiency of \$(1,334,449) (September 30, 2010 – \$907,488)

PanTerra has \$576,653 in debt with Canadian Western Bank for a revolving operating loan. The Company maintains a covenant based revolving credit facility of \$3,000,000 and non-revolving acquisition/development demand loan of \$750,000 with Canadian Western Bank. The current term for the facility ends May 1, 2012 and can be extended for an additional year, subject to approval by the lender. The credit facility bears interest rate at prime plus 1.5%. The facilities are secured by a general security agreement over all of the Company's assets and the Company must maintain a working capital ratio of greater than 1 to 1 at all times. Working capital for purpose of the credit facility is defined by the lender as current assets plus undrawn availability to current assets.

The continuation of the Company as a going concern is dependent upon the ability of the Company to generate sufficient oil and gas revenue to cover ongoing costs and/ or to obtain necessary equity financing to continue operations, and execute the Company's business plan. The outcome of these matters cannot be predicted at the present time.

In the past, the Company's capital needs have been met through equity financing. The Company now has sufficient production revenue to continue operations, but further expansion still remains dependent on the ability to raise sufficient funds in the market place in order for the Company to execute its go forward business plans. The Company also has debt financing as an extra alternative.

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 the 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 shareholder's equity and working capital.

Current Share Data

As at September 30, 2011 the Company has 26,831,591 common shares, 3,216,415 warrants and the following stock options outstanding.

Number of Options	Exercise Price	Expiry Date
250,000	\$0.25	November 10, 2014
45,000	\$0.24	December 8, 2014
650,000	\$0.24	September 1, 2015
70,000	\$0.25	September 17, 2015
720,000	\$0.20	July 30, 2012
910,000	\$0.21	January 11, 2016
240,000	\$0.23	March 24, 2016
300,000	\$0.22	May 24, 2016
3,185,000		

Financial Instruments, Hedges and Comprehensive Income

The accounting standards for financial instruments require that all financial assets and liabilities, including derivatives, are classified as: held for trading, held to maturity, available for sale assets, loans and receivables or other financial liabilities. Additional disclosure for financial instruments is set out in Note 10 of the September 30, 2011 financial statements.

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 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, 2011 and 2010, there are no significant differences between the carrying amounts of these instruments and their estimated fair value. The adoption of this new standard has had no financial impact on the Company.

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 replaces 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. See Note 10 to the September 30, 2011 financial statements.

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 year the Company has not designated any financial transactions as hedges.

Comprehensive income is the change in equity of the Company during the period as a result of transactions and other events and circumstances from non-owner sources. There was no other comprehensive loss during the period ended September 30, 2011 and 2010 accordingly comprehensive loss is equal to net loss.

Financial Instruments, Risk Management

Credit risk

Credit risk is the risk of financial loss to a company if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company’s receivables from petroleum and natural gas marketers. Receivables from petroleum marketers are normally collected on the 25th day of the month following production. The Company historically has not experienced collection issues with its petroleum and natural gas marketers. The Company does not obtain collateral from petroleum and natural gas marketers. In addition the Company has financial instruments including cash and term deposits in Canadian chartered banks, interest receivable from the same banks and GST receivable from the federal government. The Company considers the risk of default from these parties to be low.

Liquidity risk

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

Market risk

Market risk is the risk that changes in market prices, such as currency 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.

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 period ended September 30, 2011.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on outstanding bank debt fluctuates with the interest rates posted by bank. PanTerra is exposed to interest rate risk and has not entered into any mitigating interest rate hedges or swaps. Had the borrowing rate been 100 basis points higher or lower during nine months ended September 30, 2011, net loss would have been affected by \$250 before tax based on the average bank debt balance outstanding during the period.

Risks and Uncertainties

Global Financial Condition

PanTerra's financial results and its ability to access external capital will be impacted by the current price and expectations related to the future price of crude oil and natural gas. Oil and natural gas prices fluctuate significantly in response to regional, national and global supply and demand factors beyond our control. Political and economic developments around the world can affect world oil and natural gas demand, supply and oil and natural gas prices. Over the past three years, monthly oil prices have experienced significant volatility with a peak of approximately US\$130/bbl and a low of approximately US\$40/bbl.

Unconventional Gas

The Company is pursuing gas resources from shallow to medium depth shale formations that do not have the porosity or permeability to be economically produced in a conventional manner. The shale gas deposits discovered by the Company contain significant volumes of raw gas-in-place but there is no assurance that this gas can be technically or economically produced at this time.

Exploration, Development & Production Risks

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net reserves to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include: delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas release and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and environment or in personal injury. In accordance with industry practice, the Company is not fully insured against all of these risks, nor are all such risks insurable. Although PanTerra maintains liability insurance, when available, in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risk typically associated with such operations, including encountering unexpected formations, or pressures, premature decline of reservoirs and the invasion of water into production formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on future results of operations, liquidity and financial condition.

Environmental and Safety Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations.

Environmental legislation provides for, among other things, restrictions and prohibitions of spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and breach may result in imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require us to incur costs to remedy such discharge.

There are potential risks to the environment inherent in the business activities of the Company. The Company has estimated asset retirement obligation of \$1,401,954 as at September 30, 2011. The Company recognizes period-to-period changes in the liability of the asset retirement obligation resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows.

Critical Accounting Estimate

Note 3 to the September 30, 2011 financial statements outline the significant accounting policies. The policies discussed below are considered particularly important as they require management to make informed judgments, some of which relate to matters that are inherently uncertain. The financial statements have been prepared in accordance with IFRS. In preparing financial statements, management makes certain assumptions, judgments and estimates that affect the reported amounts of assets, liabilities and expenses. The basis for these estimates is historical experience and various other assumptions that management believes to be reasonable. Actual results could differ from estimates under different assumptions or conditions.

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.

Decommissioning Liabilities – The Company provides for the estimated abandonment costs using a fair value method based on estimates determined under current legislative requirements and industry practice. The amount of the liability is affected by the estimated cost per well, the timing of the expenditure and the discount factor used. These estimates will change and the revisions will impact future accretion, depletion and depreciation rates.

Taxes – The utilization of future tax assets subject to an expiry date are based on estimates of future cash flows and profitability. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes of estimates in future periods could be significant.

In preparing its opening IFRS balance sheet, comparative information for the nine months ended September 30, 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.

Capital Disclosures

The Company has 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 as information used internally by the Company's management. See Note 11 to the December 31, 2010 financial statements.

Commitments, Contingencies and Subsequent Events

Effective July 1, 2011 the Company renewed 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.

Of the \$20,236,979 investment in petroleum and natural gas property and equipment, \$8,246,816 was expended on the Saskatchewan permits. All of the expenditures on these permits have now been approved enabling PanTerra to retain these permits. The Company can now apply to continue them as leases pursuant to applicable law.

Investor Relations Activities

There were no third party investor relations activities undertaken by or on behalf of the Company during the periods ended September 30, 2011 or 2010.

Related Party Transactions

Included in general and administrative expenses for the period ended September 30, 2011, are consulting fees of \$279,753 (2010 - \$201,112) paid to companies controlled by officers of the Company. In addition legal fees of \$28,356 (2010 - \$26,853) were paid to a law firm of which the Company's corporate secretary is a partner. \$14,479 (2010 - none) of these related party amounts were payable as of September 30, 2011

Other Documents Available on SEDAR

Additional information relating to PanTerra Resource Corp., including the Company's previous Annual Reports, Quarterly Reports, Press Releases, etc. is available on SEDAR at www.sedar.com.