

**GREAT PACIFIC INTERNATIONAL INC.**

**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**FIRST QUARTER REPORT**

**For the three months ended**

**June 30, 2010 and 2009**

*These interim consolidated financial statements have been prepared by Management and have not been reviewed nor audited by the Company's Auditors.*

**GREAT PACIFIC INTERNATIONAL INC.  
CONSOLIDATED BALANCE SHEETS  
AS AT JUNE 30, 2010 AND MARCH 31, 2010**

	<b>June 30, 2010 (Unaudited) \$</b>	<b>March 31, 2010 (Audited) \$</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	2,455	1,871
Accounts receivable (Note 3)	51,492	47,287
Prepaid expenses	4,795	7,712
Amounts due from related parties (Note 4)	-	223,303
	58,742	280,173
<b>Oil and gas properties</b> (Note 5)	544,662	523,678
<b>Equipment</b> (Note 6)	18,034	19,608
	621,438	823,459
<b>TOTAL ASSETS</b>		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	276,830	291,719
Amounts due to related parties (Note 8)	18,687	50,833
Provision for current future asset retirement obligations (Note 7)	112,089	111,425
	407,606	453,977
<b>Provision for long-term future asset retirement obligations</b> (Note 7)	137,414	134,841
	545,020	588,818
<b>Shareholders' equity</b>		
Share capital (Note 9)	10,338,987	10,338,987
Contributed surplus (Note 9)	718,672	698,768
Deficit	(10,981,241)	(10,803,114)
	76,418	234,641
	621,438	823,459
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		

**Nature of operations and going concern (Note 1)**

**Commitments and contingency (Note 10)**

**On behalf of the Board:**

"Thal S. Poonian"

Thal S. Poonian, Director

"Jack Cruise"

Jack Cruise, CFO

The accompanying notes are an integral part of these consolidated financial statements

**GREAT PACIFIC INTERNATIONAL INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**  
**INTERIM PERIODS ENDED JUNE 30, 2010 AND 2009**

	Three months ended	
	June 30, 2010 (Unaudited) \$	June 30, 2009 (Unaudited) \$
<b>REVENUE</b>		
Oil and natural gas sales:	45,043	21,866
Less: royalties	(4,870)	(79)
	40,173	21,787
<b>Oil and gas production costs</b>		
Operating expenses	48,281	19,118
Depletion and accretion	17,162	22,794
	65,443	41,912
<b>Loss from oil and gas operations</b>	(25,270)	(20,125)
<b>EXPENSES</b>		
Accounting and audit	25,875	29,250
Amortization	1,574	8,964
Bank charges and interest	418	2,580
Consulting fees	12,271	37,707
Insurance	2,916	6,601
Management fees	42,750	45,000
Office and miscellaneous	12,285	14,928
Professional fees	1,443	4,935
Property and investment evaluation expense	-	1,116
Shareholder and corporate communications	8,853	1,554
Regulatory and transfer agent fees	3,091	4,459
Rent	14,550	14,550
Stock-based compensation	19,904	43,362
Travel and entertainment	5,937	17,586
	(151,867)	(232,592)
<b>Loss before other income (expenses)</b>	(177,137)	(252,717)
<b>OTHER INCOME AND (EXPENSE)</b>		
Foreign exchange gain (loss)	(1,125)	(438)
Interest income on related party advances	135	131
	(990)	(307)
<b>Loss and comprehensive loss for the year</b>	(178,127)	(253,024)
<b>Deficit, beginning of year</b>	(10,803,114)	(9,447,968)
<b>Deficit, end of year</b>	(10,981,241)	(9,700,992)
<b>Basic and diluted loss per common share</b>	(0.01)	(0.01)
<b>Weighted average number of common shares outstanding</b>	32,411,433	22,411,433

The accompanying notes are an integral part of these consolidated financial statements

**GREAT PACIFIC INTERNATIONAL INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**INTERIM PERIODS ENDED JUNE 30, 2010 AND 2009**

	Three months ended	
	June 30, 2010	June 30, 2009
	(Unaudited)	(Unaudited)
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Loss for the year	(178,127)	(253,024)
Items not affecting cash:		
Depletion and depreciation	13,925	16,509
Accretion	3,237	6,285
Amortization and impairment of equipment	1,574	8,964
Stock-based compensation	19,904	43,362
	(139,487)	(177,904)
Changes in non-cash working capital items (Note 11)	(16,177)	98,593
<b>Net cash used in operating activities</b>	(155,664)	(79,311)
<b>INVESTING ACTIVITIES</b>		
Acquisition, exploration and development of oil and gas properties	(34,909)	(30,645)
Disposition (acquisition) of equipment	-	15,000
<b>Net cash provided (used) in investing activities</b>	(34,909)	(15,645)
<b>FINANCING ACTIVITIES</b>		
Net of repayments from (advances to) related parties	191,157	74,351
<b>Net cash provided by financing activities</b>	191,157	74,351
<b>(Decrease) increase in cash during the year</b>	584	(20,605)
<b>Cash, beginning of year</b>	1,871	21,881
<b>Cash, end of year</b>	2,455	1,276

**Supplemental cash flow information (Note 11)**

The accompanying notes are an integral part of these consolidated financial statements

**GREAT PACIFIC INTERNATIONAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**Unaudited – prepared by management**

**1. NATURE OF OPERATIONS AND GOING CONCERN**

**Nature of business**

Great Pacific International Inc. ("Great Pacific") was incorporated on November 4, 1993 in Alberta, Canada. Great Pacific is a junior public resource company in the business of oil and gas exploration and development with oil and gas operations and property interests in Alberta, Canada and Texas, U.S.A.

The common shares of Great Pacific trade on the TSX Venture Exchange ("TSX-V").

**Going concern**

These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern. The use of such principles presupposes that the Company will continue its operations in the foreseeable future and that it will be able to realize its assets and discharge its liabilities in the normal course of operations.

Until the Company has attained a self-sustaining level of revenue from oil and gas production, it will remain dependent upon its ability to secure additional financing through the issuance of share capital. At June 30, 2010 the Company has a working capital deficiency of \$348,864, and is not yet generating positive cash flow from operations. Accordingly, external financing will be required in order for the Company to continue as a going concern through the twelve months ended June 30, 2011. In order to continue as a going concern, meet property payment, participation and lease obligations, discharge all liabilities, and meet all commitments, the Company expects to have to raise approximately \$ 942,000 of equity financing in the twelve months ended June 30, 2011.

Furthermore, the Company will require additional financing to carry out the petroleum exploration and development required to offset production declines, grow oil and gas reserves and achieve a self-sustaining level of revenue. Management is actively pursuing new financings, though there can be no assurance that it will be able to raise sufficient funds on acceptable terms. These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation**

These financial statements include, on a consolidated basis, the accounts of Great Pacific International Inc. and its wholly-owned subsidiaries: GPI Oil and Gas Inc., GPI Oil and Gas Overseas Inc, and GPI Petroleum Inc. All inter-company transactions and balances have been eliminated on consolidation. Great Pacific International Inc. and its subsidiaries are collectively referred to in these financial statements as "the Company".

These unaudited interim financial statements should be read in conjunction with the audited financial statements of the Company for the year ended March 31, 2010. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements.

The results of operations for the interim periods are not necessarily indicative of the results of operations for the entire year.

Certain comparative figures have been reclassified, where applicable, to conform to the current quarter's presentation.

Unaudited – prepared by management

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Adoption of new accounting policies

The unaudited interim financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles. These interim financial statements have been prepared using the same accounting policies and method of application as the audited financial statements of the Company.

No new accounting standards were required to be adopted by the Company during the three months ended June 30, 2010.

### Recent Canadian accounting developments

Recent Canadian accounting pronouncements that have been announced but are not yet effective are as follows:

#### Business Combinations - CICA Handbook Section 1582

In January 2009, the CICA issued Section 1582, "Business Combinations" to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. The adoption of this standard is not expected to have a material effect on the Company's financial statements.

#### Consolidated Financial Statements and Non-Controlling Interests – CICA Handbook Sections 1601 and 1602

In January 2009, the CICA issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests" which replace Section 1600 "Consolidated Financial Statements." Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 "Business Combinations." The adoption of this standard is not expected to have a material effect on the Company's financial statements.

#### Equity - CICA Handbook Section 3251

In August 2009, Section 3251 Equity was issued in response to issuing Section 1602 Non-controlling Interests. The amendments require non-controlling interests to be recognized as a separate component of equity. The amendments apply only to entities that have adopted Section 1602. The adoption of this section is not expected to have a material impact on the financial statements.

#### Comprehensive Revaluation of Assets and Liabilities - CICA Handbook Section 1625

In August 2009, Section 1625 Comprehensive Revaluation of Assets and Liabilities was issued for consistency with new Section 1582 Business Combinations. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. The adoption of this section is not expected to have a material impact on the financial statements.

**GREAT PACIFIC INTERNATIONAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**Unaudited – prepared by management**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

International Financial Reporting Standards (“IFRS”)

The Canadian Accounting Standards Board (“AcSB”) has published a strategic plan that calls for the convergence of Canadian GAAP (Generally Accepted Accounting Principles) with IFRS over an expected five year transitional period commencing 2006. In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada’s own GAAP. As the Company has a non-calendar fiscal year it will be required to produce the first IFRS financial statements in the first quarter of its 2012 fiscal year (the quarter ending June 30, 2012). The transition date of April 1, 2012 will require the restatement for comparative purposes of amounts reported by the Company for the year ended March 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

The Company is monitoring the impact of these convergence initiatives on its financial reporting and disclosure. At present, significant differences from the Company’s Canadian GAAP financial reporting and disclosure are expected to be with respect to the carrying value and impairment testing of its oil and gas assets. The International Accounting Standards Board is undertaking a project on the extractive industries; however this project is not anticipated to be complete by the time of Canada’s changeover to IFRS.

**3. ACCOUNTS RECEIVABLE**

Amounts presented as accounts receivable consist of the following balances:

	<b>June 30, 2010</b>	<b>March 31, 2010</b>
	<b>\$</b>	<b>\$</b>
Net revenue and cost recoveries receivable from oil and gas property operators, net of allowance	37,017	24,516
Recovery of goods and services tax	14,267	22,563
Oil and gas property expenditures incurred on behalf of joint interest-holders	208	208
	<b>51,492</b>	<b>47,287</b>

**4. AMOUNTS DUE FROM RELATED PARTIES**

Amounts due from related parties consist of the following balances:

	<b>June 30, 2010</b>	<b>March 31, 2010</b>
	<b>\$</b>	<b>\$</b>
Advance to a director (a)	-	204,878
Vehicle rental charged to a private company controlled by a Director (b)	-	18,425
	<b>-</b>	<b>223,303</b>

Amounts due from related parties are due on demand and unsecured.

Details on specific amounts due from related parties are as follows:

- (a) The Company entered into a Land Agreement with a private company (the “Agent”) controlled by a Director, to provide oil and gas properties acquisition services at the direction of the Company, in Alberta, Canada, for a term expiring October 31, 2010. Under the terms of the agreement, the Company may

**GREAT PACIFIC INTERNATIONAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**Unaudited – prepared by management**

**4. AMOUNTS DUE FROM RELATED PARTIES (Continued)**

advance up to \$450,000 to the Agent (\$204,878 at March 31, 2010). These funds shall be held in trust by the Agent to be used by the Agent for the sole purposes of paying expenses and fees in the respect of conducting negotiations, property examinations and acquisition of oil and gas properties in Alberta, Canada. As at June 30, 2010, the balance of these funds were returned to the Company. .

- (b) A private company controlled by a Director rented vehicles owned by the Company for certain periods during the fiscal year ended March 31, 2009. In Q1-2010, this director resigned and therefore any remaining amounts outstanding from him are now included in accounts receivable

**5. OIL AND GAS PROPERTIES**

Amounts presented as oil and gas properties at June 30, 2010 consist of capitalized property acquisition costs and exploration and development expenditures, less depletion, attributable to the petroleum and natural gas property interests of the Company.

The components of the carrying value of oil and gas properties are as follows:

	<b>Canada</b>	<b>United States</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Balance, March 31, 2009</b>	<b>1,147,809</b>	<b>69,641</b>	<b>1,217,450</b>
Acquisition of oil and gas property interests	103,295	-	103,295
Exploration and development of oil and gas properties	29,634	3,079	32,713
Sale of oil and gas property interests	(430,921)	-	(430,921)
Abandonment of oil and gas property interests	(355,020)	-	(355,020)
Re-estimated future asset retirement obligations (Note 8)	24,216	-	24,216
Depletion and depreciation	(64,455)	(3,600)	(68,055)
<b>Balance, March 31, 2010</b>	<b>454,558</b>	<b>69,120</b>	<b>523,678</b>
Acquisition of oil and gas property interests	14,386	-	14,386
Exploration and development of oil and gas properties	20,523	-	20,523
Depletion and depreciation	(12,783)	(1,142)	(13,925)
<b>Balance, June 30, 2010</b>	<b>476,684</b>	<b>67,978</b>	<b>544,662</b>

Capitalized expenditures for oil and gas property acquisition, exploration and development are subject to depletion and depreciation as follows

	<b>June 30, 2010</b>	<b>March 31, 2010</b>
	<b>\$</b>	<b>\$</b>
<b>Canada</b>		
Oil and gas expenditures subject to depletion and depreciation	111,483	104,886
Oil and gas expenditures not subject to depletion and depreciation	365,201	349,672
	<b>476,684</b>	<b>454,558</b>
<b>United States</b>		
Oil and gas expenditures subject to depletion and depreciation	8,400	9,542
Oil and gas expenditures not subject to depletion and depreciation	59,578	59,578
	<b>67,978</b>	<b>69,120</b>
<b>Oil and gas properties</b>	<b>544,662</b>	<b>523,678</b>

**GREAT PACIFIC INTERNATIONAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**Unaudited – prepared by management**

**5. OIL AND GAS PROPERTIES (Continued)**

**Ceiling test**

The oil and gas assets are tested for impairment at each reporting date to ensure the carrying value does not exceed the fair value of the assets. Impairment tests are conducted separately for each oil and gas cost centre, and for each individual unproven property having a carrying value representing 10% or more of the total cost centre carrying amount.

For a cost centre, an impairment loss is recognized when the carrying amount of a cost centre is not recoverable and exceeds its fair value. This is presumed to occur when the carrying value of the cost centre exceeds the sum of the undiscounted cash flows expected to be earned from the assets within the cost centre, and the cost of unproven properties subject to a separate test for impairment.

The forecasted future price used in the ceiling test evaluations of the Company's oil and gas interests at March 31, 2010 are as follows:

	2010	2011	2012	2013	2014	Increase thereafter to 2019
Oil (Edmonton light sweet 40° API C\$/Bbl)	\$83	\$86	\$90	\$94	\$97	2.0% per year
Natural gas (Alberta average field C\$/MMBtu)	\$4.50	\$5.25	\$6.00	\$6.50	\$7.00	2.3% per year

Future prices received by the Company for oil and gas products may differ from the ones listed above because of purchase price variations, market conditions, quality differentials or marketing arrangements.

**6. EQUIPMENT**

	June 30, 2010			March 31, 2010		
	Cost \$	Accumulated Amortization \$	Net Book Value \$	Cost \$	Accumulated Amortization \$	Net Book Value \$
Computers and office equipment	58,416	(55,093)	3,323	58,416	(53,666)	4,750
Vehicles	24,991	(10,280)	14,711	24,991	(10,133)	14,858
<b>Equipment</b>	<b>83,407</b>	<b>(65,373)</b>	<b>18,034</b>	<b>83,407</b>	<b>(63,799)</b>	<b>19,608</b>

**7. FUTURE ASSET RETIREMENT OBLIGATIONS**

Future asset retirement obligations consist of the present value of the expected future cost of reclaiming the Company's oil and gas assets, including well-sites and lease roads, storage tanks, and well-bores, in accordance with regulations and statute, licencing requirements, and contractual obligations.

GREAT PACIFIC INTERNATIONAL INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 JUNE 30, 2010

Unaudited – prepared by management

7. FUTURE ASSET RETIREMENT OBLIGATIONS (Continued)

Estimated undiscounted cash flows required to fulfill and settle future asset retirement obligations, excluding any provision for expected salvage value, are as follows:

Year	Undiscounted asset retirement cash flow \$
2011	114,000
2012	50,000
2015	50,000
2018	50,000
Thereafter to 2025	64,000
	<u>328,000</u>

For producing wells or properties considered to have development potential, the timing of asset retirement expenditures is estimated based on the expected reserves exhaustion date. Should any property be depleted earlier than expected, due to such factors as commodity prices, reservoir geology, or equipment failure, statutory asset retirement obligation dates may be accelerated. Additionally, as the Company holds a non-operated minority working interest in its Canadian oil and gas wells, the estimated dates for asset retirement on non-producing properties are generally subject to the election of the operator, among other factors.

In determining the fair value of the future asset retirement obligation at June 30, 2010, the estimated undiscounted asset retirement cash flows were discounted using a credit adjusted risk-free rate of 8%.

**Long-term provision for future asset retirement obligations**

The long-term provision for future asset retirement obligations arises as follows:

	June 30, 2010 \$	March 31, 2010 \$
<b>Balance, beginning of year</b>	246,266	414,708
Accretion	3,237	25,183
Obligation recognized during the year	-	28,080
Obligations transferred during the year (Note 5)	-	(245,921)
Re-estimate of future asset retirement obligations capitalized in prior years	-	24,216
	<u>249,503</u>	<u>246,266</u>
Less: current portion	(112,089)	(111,425)
<b>Balance, end of period</b>	<u>137,414</u>	<u>134,841</u>

**Current provision for future asset retirement obligations**

At June 30, 2010, the Company has a current provision for future asset retirement obligations of \$112,089 (March 31, 2010: \$111,425).

The Company recorded the current provision in respect of asset retirement obligations which it expects to settle in the fiscal year ended March 31, 2011. The provision relates to the estimated costs of retiring two suspended well-bores, on properties which either have a lease expiring prior to March 31, 2011, or in respect of which the operator has notified the Company of its intention to commence abandonment in the near-term.

Unaudited – prepared by management

## 8. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions and balances entered into during the three month periods ended June 30, 2010 and 2009 (“Q1-2011” and “Q1-2010”, respectively) and not disclosed elsewhere in these financial statements are as follows:

- (a) The Company paid or accrued management fees to two officers totalling \$42,750 (Q1-2010: \$45,000).
- (b) Consulting fees includes \$nil (Q1-2010: \$1,500) in corporate communication fees paid to a director of the Company.
- (c) Amounts due to related parties consists of amounts owing to officers and directors (or to persons related to them or companies controlled by them) for services as noted above, and for expense reimbursements.

## 9. SHARE CAPITAL AND CONTRIBUTED SURPLUS

### Share capital

Shares authorized, issued and outstanding at June 30, 2010 are as follows:

Authorized:	an unlimited number of common shares without par value an unlimited number of preferred shares without par value
Issued:	32,411,433 common shares (March 31, 2010: 32,411,433 common shares) Nil preferred shares (March 31, 2010: Nil preferred shares)

The Company issued no shares in the period ended June 30, 2010.

### Contributed surplus

The amounts classified as contributed surplus are as follows:

	<u>\$</u>
<b>Balance, March 31, 2010</b>	<b>698,768</b>
Stock-based compensation on stock options granted in prior periods	19,904
<b>Balance, June 30, 2010</b>	<b><u>718,672</u></b>

### Warrants

At June 30, 2010 and March 31, 2010 the Company has 12,552,000 share purchase warrants outstanding as follows:

	Number of underlying shares	Exercise Price	Expiry Date
FY-2009 grant	1,952,000	\$0.13	April 14, 2011
FY-2010 grant	10,600,000	\$0.15	November 26, 2011
	<u>12,552,000</u>		

**GREAT PACIFIC INTERNATIONAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**Unaudited – prepared by management**

**9. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Continued)**

**Incentive stock options**

At June 30, 2010 the Company has 1,091,000 incentive stock options issued and outstanding (March 31, 2010: 1,561,000 options). No options were granted or exercised in the period ended June 30, 2010. As per the terms of the Company's stock option plan, 390,000 stock options granted April 15, 2008 and 80,000 stock options granted February 18, 2008 expired in the three months ended June 30, 2010 due to the resignation of certain officers and directors.

The terms of incentive stock options issued and outstanding at June 30, 2010 and March 31, 2010 are as follows:

Exercise price	Date of Grant	Expiry Date	June 30, 2010		March 31, 2010	
			Outstanding	Exercisable	Outstanding	Exercisable
\$0.22 - \$0.27	April 15, 2008	April 14, 2013	-	-	390,000	117,000
\$0.22 - \$0.27	February 18, 2008	February 17, 2013	610,000	244,000	690,000	276,000
\$0.18	October 3, 2005	October 3, 2010	481,000	481,000	481,000	481,000
<b>Total</b>			<b>1,091,000</b>	<b>725,000</b>	<b>1,561,000</b>	<b>874,000</b>

The FY-2008 options vest as to 10% every six months, commencing February 18, 2008 with the last 20% vesting on August 18, 2012 (revised via board resolution). The initial exercise price was \$0.18 per share, escalating at 10% per year on each anniversary date up to \$0.27 per share through fiscal 2013. As a result of an initial escalation on the anniversary dates, the exercise price of 2008 options vested at June 30, 2010 was \$0.22 per share.

The Company recognized \$19,486 (2009 - \$42,535) for the vested portion of the employee stock options which has been recorded as contributed surplus and charged to operations for the period ended June 30, 2010.

The Company recognized \$418 (Q1-2010 \$827) for the vested portion of stock options granted to non-employees in the period ended June 30, 2010. Incentive stock options granted to non-employees are recorded at fair value measured at the performance completion date.

In the period ended June 30, 2010, the performance date fair value of incentive stock options granted and earned by non-employees was determined using a weighted average volatility of 119%, a stock value of \$0.11 per share, a weighted average remaining life of 2.67 years, and a weighted average risk free rate of 1.75%.

**10. COMMITMENTS AND CONTINGENCY**

Property lease payments

In order to keep the Company's Alberta Crown leases in good standing, the Company must pay lease expenses totalling approximately \$34,595 per year.

Property participation, Alberta

In order to maintain its minority working interests in oil and gas properties, the Company must participate to its proportionate share in duly authorized exploration and development work conducted on those properties by its co-venturers. Failure to participate in work programs initiated by a property operator or other joint interest-holder may result in the Company losing substantially all its interest in those properties. As the Company holds non-operated working interests in substantially all its jointly owned Alberta oil and gas properties, it may have little discretion as to the timing of such exploration and development expenditures.

**GREAT PACIFIC INTERNATIONAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**Unaudited – prepared by management**

**10. COMMITMENTS AND CONTINGENCY (Continued)**

Operatorship dispute

In the fiscal year ended March 31, 2009, the Company filed a Statement of Claim in the Court of Queen’s Bench of Alberta in the Judicial District of Calgary, against the operator of the Company’s Mistahiya-group properties.

The Statement of Claim is in respect of certain operatorship issues and seeks a judicial resolution of disputed revenue with-holdings, the assertion of our take-in-kind rights to oil revenue, and other issues. A trial date has not yet been set.

In the interim the Company has obtained an Order in the Court of Queen’s Bench of Alberta, Judicial District of Calgary requiring that the operator pay Great Pacific its proportional 36% share of the gross revenue and provide a statement of expenses arising out of the joint venture operations on our Red Earth wells within 50 days of the end of each production month. Upon receipt of the revenue, Great Pacific is to pay the Operator its share of proper expenses, with any disputed expenses to be paid into Court with an explanation as to the nature of the dispute.

The operator has filed a Statement of Defense in respect of this matter, and has also filed a counter-claim against the Company. The counter-claim is seeking unspecified punitive and compensatory damages against the Company in respect of alleged interference with an oil marketing contract formerly held in respect of the jointly owned wells. Management believes the counter-claim to be completely without merit, and the Company intends to vigorously defend itself against these allegations. No amounts related to the counter-claim have been accrued at June 30, 2010.

**11. SUPPLEMENTAL CASH FLOW INFORMATION**

Amounts classified on the consolidated statements of cash flows as changes in non-cash working capital items are as follows:

	<b>Three months ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Decrease (increase) in accounts receivable	(4,205)	33,684
Decrease in prepaid expenses	2,917	6,616
Increase (decrease) in accounts payable and accrued liabilities	(14,889)	58,293
<b>Changes in non-cash working capital items</b>	<b>(16,177)</b>	<b>98,593</b>

**12. SEGMENTED INFORMATION**

In the periods ended June 30, 2010 and 2009, the Company operated in one reportable business segment, being oil and gas exploration and development.

The Company’s assets and operations are located in Canada and the United States. The Company receives production revenue from oil and gas properties in Alberta, Canada and Arkansas, U.S.A. The Company has undertaken oil and gas exploration and development in Alberta, Canada and Texas, U.S.A. (Note 5).

In Q1-2011 the Company recorded gross natural gas sales revenue of \$1,065 from its United States oil and gas assets (Q1-2010: \$707). The balance of the Company’s oil and gas sales revenue is attributable to the Company’s Canadian oil and gas properties.

**GREAT PACIFIC INTERNATIONAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**Unaudited – prepared by management**

**13. FINANCIAL INSTRUMENTS AND RISK**

**Financial instruments**

(a) Fair Values of Financial Instruments

The Company has various financial instruments including cash, accounts receivable, amounts due from related parties, amounts due to related parties and accounts payable. The carrying values of cash, accounts receivable, and accounts payable approximate their fair values due to their relatively short periods to maturity. The carrying values of amounts due from related parties and amounts due to related parties approximate their fair values as these instruments have no fixed terms of repayment.

(b) Fair Value Measurements

The fair value of cash is determined based on “Level 1” inputs, which consist of quoted prices in active markets for identical assets. The fair values of amounts due from/to related parties are determined based on “Level 2” inputs which consist of model-driven valuations in which significant inputs can be corroborated by observable market data.

Assets measured at fair value on a recurring basis were presented on the Company’s balance sheet as of June 30, 2010 as follows:

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets For Identical Instruments (Level 1) \$	Significant Other Observable Inputs (Level 2) \$	Significant Unobservable Inputs (Level 3) \$	
Assets:				
Cash	2,455	–	–	2,455

**Financial instrument risk**

Significant sources of financial instrument risk are detailed as follows:

Concentration of credit risk

The maximum amount of credit risk the Company is exposed to at June 30, 2010 is \$53,947, which consists of the face value of cash and accounts receivable.

*Cash*

Cash is held in demand accounts at a Canadian chartered bank. The Company does not believe it is subject to any significant counterparty risk with respect to cash as amounts do not exceed federally insured limits.

Unaudited – prepared by management

### 13. FINANCIAL INSTRUMENTS AND RISK (Continued)

#### *Accounts receivable*

The Company is exposed to on-going concentration of credit risk because its Canadian oil and gas assets, representing approximately **98%** of its gross revenue, are operated by a single counterparty. Accordingly, our dealings with that party account for the bulk of our cash in-flows from operating activities. At June 30, 2010 amounts owing from that party comprised 43% of the carrying value of accounts receivable (March 31, 2010: 47%).

Accounts receivables typically arise from normal joint operating arrangements governing the Company's producing oil and gas properties, and from cost-recovery billings.

#### *Amounts due from related parties*

At March 31, 2010 related party advances consisted of advances due from a private company controlled by a Director (Note 4(a)). These amounts are due on demand, and have no fixed terms. In Q1-2011, these funds were returned to the Company.

#### Interest rate risk

The Company has no debt instruments outstanding, besides trade credit as provided from time to time. The Company does not believe its overall exposure to interest rate risk is significant.

#### Currency risk

The Company generates approximately 2% of its gross revenue from a natural gas well in the United States, and holds petroleum land interests in the United States having a book value of \$8,400. Accordingly, changes in the U.S. denominated value of the Canadian dollar will impact the Canadian dollar cost of meeting any future obligations under that prospect area and will affect the Canadian dollar-denominated value of natural gas production.

As at June 30, 2010, the Company does not believe its overall exposure to currency risk for its obligations denominated in United States dollars is significant.

#### Commodity price risk

The Company is exposed to material oil and gas commodity price risk. A relative decrease in the price of oil and gas would reduce the Company's cash flows, reduce the realizable market value of the Company's oil and gas assets, reduce the Company's economic reserves, and make it more difficult for the Company to raise the equity capital required to meet its commitments and carry out its development-stage business plans. Management has assessed that the Company's degree of exposure to commodity price risk is material, but consistent with our development stage oil and gas business operations. The Company has not entered into any arrangements to mitigate this risk.

#### Liquidity risk

The Company faces material liquidity risk in that it has approximately \$277,000 in accounts payable which are overdue at June 30, 2010 and insufficient cash on hand to satisfy those debts should they be demanded. The Company is seeking equity financing in order to obtain additional liquidity to mitigate this risk (Note 1).

## **14. CAPITAL MANAGEMENT**

### **Capital management objectives**

The primary capital management objective of the Company is to ensure adequate working capital is available to adequately fund both the Board-approved business development plans (i.e. oil and gas exploration and development), and the working capital requirements of each annual operating cycle, while also seeking to minimize the risk-adjusted cost of capital. At June 30, 2010 the Company lacks sufficient capital to carry out the necessary drilling to grow beyond the development stage.

Capital is raised and retained for the purposes and to the extent necessary to fund exploration projects and corporate overhead costs, subject to the availability of financing on acceptable terms. Given its objectives, the Company determines the amount of capital to be raised and retained based on the scope of planned exploration activity, and management's assessment of the expected availability of acceptably priced capital in future periods.

The Company's capital management plan seeks to ensure adequate resources are available to fund our activities through the balance of the current fiscal year. A significant measure used in assessing capital adequacy is thus the expected number of days of operations that can be funded from current working capital. In general, capital levels are considered sufficient if they can fund the balance of the annual exploration season and fund corporate overhead expenses in the near-term. Current capital levels are not sufficient given those objectives.

As the Company's major assets – oil and gas properties – are collectively illiquid and not fully developed, they require significant additional expenditures to be fully monetized. As a result of this, and because the Company is not yet earning positive cash flow from operations, management of externally-financed working capital is, by necessity, a major capital management objective of the Company. The ability of the Company to continue as a going concern is materially sensitive to the availability and cost of such capital, which is in part subject to macro-economic factors beyond the control of the Company.

### **Targeted financial structure**

The Company defines managed capital as shareholders' equity. Our targeted capital structure approaches 100% capital equity. Management believes that such a capital structure is the most suitable in light of the Company's capital management objectives, and it is considered commensurate with our development-stage operations. Towards that end, we had no debt securities outstanding at June 30, 2010.

The Company's current financial structure represents a significant negative deviation from our target structure, as the Company has a working capital deficiency and lacks the financial resources to carry out necessary exploration and development. The Company estimates that it will require additional equity financing of at least \$942,000 in the coming 12 months to remain a going concern, to continue to meet property payments, participation and lease obligations, and to continue to participate to our working interest in our Canadian oil and gas properties. Beyond that, additional financing will be required to achieve a self-sustaining level of oil and gas revenues.

The chief source of liquidity and working capital is equity financing obtained through the sale of common shares and share purchase warrants, and the exercise of warrants and options. The Company from time to time receives loan payables from related parties and trade credit, but such financial instruments are typically only supplementary to equity financings, on a short-term basis.

In any case, the Company does not consider debt to be a sustainable source of working capital, for until we achieve self-sustaining positive operating cash flows, any debt obtained must be retired with funds raised through equity financing.

The Company is not subject to material externally-imposed capital constraints.