

**GREAT PACIFIC INTERNATIONAL INC.**

***CONSOLIDATED FINANCIAL STATEMENTS***

***SECOND QUARTER REPORT FOR  
THE THREE AND SIX MONTHS ENDED***

**SEPTEMBER 30, 2008**

The accompanying financial statements for the three months ended September 30, 2008 have not been reviewed or audited by the Company's Auditors.

**GREAT PACIFIC INTERNATIONAL INC.**  
**Consolidated Balance Sheets**  
Unaudited

	September 30, 2008 (Unaudited) \$	March 31, 2008 Audited \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	163,409	634,442
Accounts receivable, advances recoverable and prepaid expenses (Notes 4, 7, 13)	254,437	128,176
	<u>417,846</u>	<u>762,618</u>
<b>Oil and gas properties</b> (Note 5)	1,708,777	1,677,474
<b>Drilling deposit</b> (Note 5)	-	100,000
<b>Long-term investment</b>	1	1
<b>Equipment</b> (Note 6)	86,482	15,313
	<u>2,213,106</u>	<u>2,555,406</u>
<b>TOTAL ASSETS</b>		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 7)	128,880	273,366
	<u>128,880</u>	<u>273,366</u>
<b>Future asset retirement obligations</b>	490,805	476,675
	<u>619,685</u>	<u>750,041</u>
<b>Shareholders' equity</b>		
Share capital (Note 8)	9,613,070	8,145,853
Contributed surplus (Note 8)	389,005	307,316
Share subscriptions received in advance	-	814,598
Deficit	(8,408,654)	(7,462,402)
<b>Total shareholders' equity</b>	<u>1,593,421</u>	<u>1,805,365</u>
	<u>2,213,106</u>	<u>2,555,406</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		

**Nature and continuance of operations** (Note 1)

**Commitments** (Note 9)

**Subsequent events** (Note 12)

**On behalf of the Board:**

"Thal S. Poonian"

Thal S. Poonian

Director

"Ronald Bobowski"

Ronald Bobowski

Director

The accompanying financial statements for the three months ended September 30, 2008 have not been reviewed or audited by the Company's Auditors.

**GREAT PACIFIC INTERNATIONAL INC.**  
**Consolidated Statements of Operations and Deficit**  
**Three and six months ended September 30, 2008 and 2007**

	Three months ended		Six months ended	
	September 30,	September 30,	September 30	September 30
	2008	2007	2008	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	\$	\$	\$	\$
<b>Revenue</b>				
Oil and gas sales	64,843	91,489	146,764	94,562
<b>Oil and gas production expenses</b>				
Operating expenses	15,949	51,547	45,061	55,006
Depletion and accretion	391,169	33,356	453,281	37,392
	(407,118)	(84,903)	(498,342)	(92,398)
<b>(Loss) gain on oil and gas operations</b> (Note 11)	(342,275)	6,586	(351,578)	2,164
<b>General and administrative expenses</b>				
Accounting and audit	29,970	31,387	54,690	48,505
Amortization expense	967	1,145	2,841	1,844
Consulting fees	37,407	26,500	70,366	57,143
Finance fees	-	25,000	-	25,000
Insurance	8,718	338	16,485	450
Management fees	30,000	50,000	60,000	79,250
Office and miscellaneous	22,608	12,985	36,605	27,506
Professional fees	3,483	21,559	25,718	33,210
Prospect evaluation and due diligence	84,656	-	112,752	-
Shareholder communication and investor relations	41,614	26,339	63,877	38,297
Regulatory and transfer agent fees	4,660	8,142	7,917	18,377
Rent	14,550	12,000	26,550	24,000
Stock-based compensation expense (Note 8)	30,386	-	81,688	-
Travel and entertainment	18,031	28,391	38,089	53,528
Loss on foreign exchange	2,370	-	2,496	-
Vehicle cost recoveries, net of vehicle expenses	(4,016)	-	(5,400)	-
	(325,404)	(243,786)	(594,674)	(407,110)
<b>Net loss for the period</b>	(667,679)	(237,200)	(946,252)	(404,946)
<b>Deficit, beginning of period</b>	7,740,975	6,762,364	7,462,402	6,594,618
<b>Deficit, end of period</b>	8,408,654	6,999,564	8,408,654	6,999,564
<b>Basic and diluted loss per common share</b>	\$(0.03)	\$(0.01)	\$(0.04)	\$(0.02)
<b>Weighted average number of common shares outstanding</b>	22,267,020	17,673,609	22,156,930	17,273,430

The accompanying financial statements for the three months ended September 30, 2008 have not been reviewed or audited by the Company's Auditors.

**GREAT PACIFIC INTERNATIONAL INC.**  
**Consolidated Statements of Cash Flows**  
**Three and six months ended September 30, 2008 and 2007**

	Three months ended September 30, 2008 (Unaudited) \$	September 30, 2007 (Unaudited) \$	Six months ended September 30, 2008 (Unaudited) \$	September 30, 2007 (Unaudited) \$
<b>CASH FLOWS USED IN OPERATING ACTIVITIES</b>				
Loss for the period	(667,679)	(237,200)	(946,252)	(404,946)
Items not affecting cash:				
Amortization	4,687	1,145	7,015	1,844
Depletion and accretion	391,169	33,356	453,281	37,392
Stock based compensation expense	30,386	-	81,688	-
	<u>(241,437)</u>	<u>(202,699)</u>	<u>(404,268)</u>	<u>(365,710)</u>
Change in non-cash working capital items (Note 10)	(76,069)	2,530	(85,151)	8,493
<b>Net cash used in operating activities</b>	<u>(317,506)</u>	<u>(200,169)</u>	<u>(489,419)</u>	<u>(357,217)</u>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>				
Acquisition, exploration and development of oil and gas properties	(191,026)	(268,903)	(376,323)	(905,729)
Purchase of equipment	(1,554)	(149)	(78,184)	(21,832)
Proceeds of sale of discontinued operations	-	-	-	2,000
<b>Net cash used in investing activities</b>	<u>(192,580)</u>	<u>(269,052)</u>	<u>(454,507)</u>	<u>(925,561)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Common shares issued for cash	48,000	688,640	621,517	1,010,440
Net repayments and advances (to) from related parties	(95,409)	11,456	(148,624)	24,947
Share subscriptions received	-	123,900	-	354,700
<b>Net cash (used in) provided by financing activities</b>	<u>(47,409)</u>	<u>823,996</u>	<u>472,893</u>	<u>1,390,087</u>
<b>Net cash in-flows (out-flows) for the period</b>	<u>(557,495)</u>	<u>354,775</u>	<u>(471,033)</u>	<u>107,309</u>
<b>Cash, beginning of period</b>	<u>720,904</u>	<u>280,171</u>	<u>634,442</u>	<u>527,637</u>
<b>Cash, end of period</b>	<u>163,409</u>	<u>634,946</u>	<u>163,409</u>	<u>634,946</u>

**Supplemental disclosure with respect to cash flows (Note 10)**

The accompanying financial statements for the three months ended September 30, 2008 have not been reviewed or audited by the Company's Auditors.

**GREAT PACIFIC INTERNATIONAL INC.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008**  
Unaudited

**1. NATURE AND CONTINUANCE OF OPERATIONS**

**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. Great Pacific's operations are primarily in Alberta, Canada and Texas, U.S.A., where it holds varying working interests, option interests, and other interests in certain petroleum leases. The common shares of Great Pacific trade on the TSX Venture Exchange ("TSX-V").

**Consolidation**

The financial statements for the three and six months ended September 30, 2008 include, on a fully consolidated basis, the assets and liabilities and revenues and expenses of Great Pacific International Inc. and its wholly-owned subsidiaries: GPI Oil and Gas Inc. which was incorporated in British Columbia in the year ended March 31, 2008; GPI Petroleum Inc, which was incorporated in Texas in the six months ended September 30, 2008; and GPI Oil and Gas Overseas Inc., which was incorporated in British Columbia in the three month period ended September 30, 2008.

The balance sheet as at March 31, 2008 and the comparative figures for the three and six months ended September 30, 2007 include, on a consolidated basis, the assets and liabilities and revenues and expenses of Great Pacific International Inc. and GPI Oil and Gas 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".

**Going concern assumption**

These financial statements have been prepared in accordance with accounting principles that apply 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. Management has assessed the going concern assumption as appropriate for the Company.

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. Management is actively pursuing new financing, and while it has been successful in the past, there can be no assurance that it will be able to raise sufficient funds on acceptable terms in the future. Failure to secure additional financing in a timely manner will prevent the Company from realizing its oil and gas business objectives. The Company expects to require additional financing of a minimum of \$600,000 to fund operations and continue as a going concern for the coming twelve month period.

At September 30, 2008 the Company has working capital of \$288,966 (March 31, 2008: \$489,252).

**GREAT PACIFIC INTERNATIONAL INC.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008**  
Unaudited

**2. FINANCIAL STATEMENT PRESENTATION**

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. These unaudited interim financial statements should be read in conjunction with the audited financial statements of the Company for the year ended March 31, 2008. 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.

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

**3. SIGNIFICANT ACCOUNTING POLICIES**

Significant accounting policies not disclosed in the consolidated financial statements of the Company for the year ended March 31, 2008 are as follows:

Foreign currency translation

The Company follows the temporal method of foreign currency translation. Monetary assets and liabilities are translated at the foreign exchange rate observed at the balance sheet date. Non-monetary items are translated at the historical exchange rates, unless such items are carried at market in which case they are translated at the exchange rate in effect at the balance sheet date. Revenues and expense items are translated at the exchange rate in effect on the dates they occurred.

**New accounting policies**

Effective April 1, 2008 the Company adopted the following pronouncements of the Canadian Institute of Chartered Accountants ("CICA").

Assessing going concern, CICA Handbook Section 1400

Section 1400 requires management to make an assessment of an entity's ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. In making this assessment, management shall take into account all information about the future extending, at least, twelve months from the balance sheet date.

The adoption of this policy has had no impact on the financial statements. Management's assessment of the ability of the Company to continue as a going concern, and details of material uncertainties considered in the determination of that assessment, are provided in Notes 1 and 13.

Capital disclosures, CICA Handbook Section 1535

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. Section 1535 also requires the disclosure of any externally-imposed capital requirements, whether the entity has complied with them, and if not, the consequences.

In accordance with Section 1535, the Company has detailed its capital disclosures in Note 14 to these financial statements.

**GREAT PACIFIC INTERNATIONAL INC.**  
**Notes to the Consolidated Financial Statements**  
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Unaudited

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

Inventories, CICA Handbook Section 3031

Section 3030 established new standards for the measurement and disclosure of inventories. The adoption of this standard did not require a re-statement of deficit or comparative figures, and does not affect the presentation of the financial statements.

**4. ACCOUNTS RECEIVABLE, ADVANCES RECOVERABLE AND PREPAID EXPENSES**

The amounts classified as accounts receivable, advances recoverable and prepaid expenses comprise the following:

	September 30, 2008 \$	March 31, 2008 \$
Net revenue receivable from oil and gas property operators	74,848	96,794
Oil and gas property expenditures incurred on behalf of joint interest-holders and other cost recovery billings (Note 7)	17,222	4,951
Recovery of goods and services tax	25,373	12,677
Expense advance made to a director (Notes 7 and 13)	69,363	-
Prepaid expenses	67,631	13,754
	<u>254,437</u>	<u>128,176</u>

**5. OIL AND GAS PROPERTIES**

**Property transactions**

Acquisitions

In the six months ended September 30, 2008, the Company identified and acquired a number of new oil and gas property interests, as follows:

*Crown leases, Alberta, Canada*

The Company entered into leases with the Crown for 4,810 net hectares of petroleum and natural gas ("P & NG") leases in Alberta, Canada for total bonus payments of \$60,902.

*Midland Basin prospect area, Texas, USA*

GPI Petroleum Inc. ("GPI Petroleum"), a wholly-owned subsidiary of Great Pacific, acquired non-operated participation rights to a 13% working interest (9.75% net revenue interest) in a petroleum prospect in Texas, U.S.A. (Note 9). This prospect area consists of certain lease-held and option-held petroleum interests held by the project operator.

GPI Petroleum acquired these participation rights by paying \$103,351 to the property vendor (who is also the project operator). As consideration for these acquisition fees, the Company also obtained 3-D seismic data for that prospect area.

GPI Petroleum elected to participate, to its proportionate interest, in the drilling of a test well on that property in the three months ended September 30, 2008.

Pursuant to the terms of the participation agreement, the Company committed itself to fund 17.3% of the costs of the test well to casing point. Drilling of this test well commenced in the three months ended September 30, 2008.

**GREAT PACIFIC INTERNATIONAL INC.**  
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Unaudited

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

*Midland Basin prospect area, Texas, USA (continued)*

At September 30, 2008, the Company had paid \$122,184 to the project operator for GPI Petroleum's share of drilling costs incurred to-date. At September 30, 2008 drilling was on-going, with additional estimated drilling costs of \$80,000 remaining to be incurred by the Company (Notes 9, 11).

Property forfeitures

*Manitoba*

In the six months ended September 30, 2008, certain of the Company's petroleum leases in Manitoba, Canada expired.

**Carrying value of oil and gas properties**

Amounts classified as oil and gas properties are as follows, presented by cost centre:

	Cost \$	Accumulated depletion \$	Net \$
<b><u>Canada</u></b>			
<b>Balance, March 31, 2008</b>	2,015,810	(355,458)	1,660,352
Acquisition of oil and gas property interests	60,902	-	60,902
Re-estimation of future asset retirement obligations	(2,707)	-	(2,707)
Exploration and development	77,704	-	77,704
Drilling deposit forfeited	100,000	-	100,000
Depletion	-	(288,948)	(288,948)
	<u>235,899</u>	<u>(288,948)</u>	<u>(53,049)</u>
<b>Balance, September 30, 2008</b>	<u>2,251,709</u>	<u>(644,406)</u>	<u>1,607,303</u>
<b><u>U.S.A.</u></b>			
<b>Balance, March 31, 2008</b>	32,673	(15,551)	17,122
Acquisition of oil and gas property interests	103,351	-	103,351
Exploration	128,497	-	128,497
Depletion	-	(147,496)	(147,490)
	<u>231,848</u>	<u>(147,496)</u>	<u>84,352</u>
<b>Balance, September 30, 2008</b>	<u>264,521</u>	<u>(163,047)</u>	<u>101,474</u>
<b>Total oil and gas properties, September 30, 2008</b>	<u><u>2,516,230</u></u>	<u><u>(807,453)</u></u>	<u><u>1,708,777</u></u>

**GREAT PACIFIC INTERNATIONAL INC.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008**  
Unaudited

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

Capitalized oil and gas property expenditures are subject to depletion as follows:

	September 30, 2008 \$	March 31, 2008 \$
<b>Canada</b>		
Oil and gas expenditures subject to depletion	810,507	790,192
Oil and gas expenditures not subject to depletion	796,796	870,160
	1,607,303	1,660,352
<b>U.S.A.</b>		
Oil and gas expenditures subject to depletion	14,226	17,122
Oil and gas expenditures not subject to depletion	87,248	-
	101,474	17,122
	1,708,777	1,677,474

Oil and gas expenditures classified as not subject to depletion relate to unproven properties in the pre-production stage.

**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.

In the six months ended September 30, 2008, the Company recognized an impairment charge on the Canadian oil and gas cost centre of \$206,294, and on the U.S.A. cost centre of \$102,500. These charges are included in depletion expense. The impairment arose as a result of our decision not to proceed with the Haro East and RLE Red Earth farm-in lands, and the uneconomic results of the Midland Basin prospect area test well.

The forecasted future prices used in the ceiling test evaluations of the Company's oil and gas interests at September 30, 2008 are as follows:

	2008	2009	2010	2011	2012	2013	Increase thereafter to 2018
Oil (Edmonton light sweet 40° API C\$/Bbl)	\$96	\$91	\$87	\$83	\$82	\$82	2.5% per year
Natural gas (Alberta average field C\$/MMBtu)	\$8.00	\$7.85	\$7.65	\$7.55	\$7.55	\$7.65	2.5% per year
US\$ (expressed in CDN \$)		\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	(0%) per year

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

**GREAT PACIFIC INTERNATIONAL INC.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008**  
Unaudited

**6. EQUIPMENT**

The carrying amount of equipment comprises the following:

	<u>September 30, 2008</u>			<u>March 31, 2008</u>		
	Cost \$	Accumulated Amortization \$	Net Book Value \$	Cost \$	Accumulated Amortization \$	Net Book Value \$
<b>Computers and office equipment</b>	58,416	(45,944)	12,472	58,416	(43,103)	15,313
<b>Vehicles</b>	78,184	(4,174)	74,010	-	-	-
	<u>136,600</u>	<u>(50,118)</u>	<u>86,482</u>	<u>58,416</u>	<u>(43,103)</u>	<u>15,313</u>

**7. RELATED PARTY TRANSACTIONS**

Related party transactions and balances entered into during the six month period ended September 30, 2008 and the comparative period ended September 30, 2007 ("September 30, 2007"), and not disclosed elsewhere in these financial statements, are as follows:

- a) The Company paid management fees to three officers totalling \$60,000 (September 30, 2007: \$79,250 to three officers).
- b) The Company paid or accrued professional engineering fees to a private company controlled by an officer, totalling \$27,710 (September 30, 2007: \$ nil).
- c) The Company paid or accrued professional geological fees to a private company controlled by a director, totalling \$2,265 (September 30, 2007: \$ nil).
- d) The Company paid finders' fees of \$75,000 to a relative of a director in connection with a private placement offering (September 30, 2007: \$ nil).
- e) Accounts payable and accrued liabilities at September 30, 2008 include \$25,622 (March 31, 2008: \$89,158) due to officers, directors, and persons related, for services as noted in a), b) and c) as above, and for expense reimbursements.
- f) Accounts receivable, advances recoverable and prepaid expenses include \$15,725 (March 31, 2008: \$ nil) owing from two private companies, each having a director in common with the Company, for cost recovery billings submitted. Accounts receivable, advances recoverable, and prepaid expenses also includes a \$69,363 expense advance made to a director of the Company, for out-of-pocket expenses expected to be incurred on the Company's behalf in the normal course of the Company's operations.
- g) 340,000 stock options were granted to related parties, having exercise prices escalating from \$1.50 per share to \$2.20 per share (September 30, 2007: \$-nil).

These fees and transactions occurred in the normal course of operations and are measured at the exchange amount, which is the consideration established and agreed to by the related parties.

**GREAT PACIFIC INTERNATIONAL INC.**  
**Notes to the Consolidated Financial Statements**  
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Unaudited

**8. SHARE CAPITAL AND CONTRIBUTED SURPLUS**

**Share capital**

Authorized: an unlimited number of common shares without par value  
an unlimited number of preferred shares without par value

Issued: 22,291,433 common shares (March 31, 2008: 20,243,433 common shares)  
Nil preferred shares (March 31, 2008: Nil preferred shares)

A summary of common shares issued and outstanding at September 30, 2008 is as follows:

	Number of Shares #	Amount \$
<b>Balance, March 31, 2008</b>	20,243,433	8,145,853
Issued in the period for cash:		
Private placement	2,000,000	1,500,000
Share issuance costs	-	(80,783)
Warrants exercised	48,000	48,000
<b>Balance, September 30, 2008</b>	<u>22,291,433</u>	<u>9,613,070</u>

**Private placement**

In the six months ended September 30, 2008, the Company completed a private placement offering of 2,000,000 equity units at a price of \$0.75 per equity unit, for gross proceeds of \$1,500,000 (the "Q1-2009 Equity Offering"). Each equity unit consisted of 1 common share of the Company, and 1 share purchase warrant. Each share purchase warrant entitles the holder to purchase 1 additional common share of the Company at a price of \$1.00 per share until April 14, 2010. The Company paid cash finders' fees of \$80,783 in connection with this offering, for net proceeds of \$1,419,217.

At March 31, 2008, the Company had recorded share subscriptions received of \$814,598. These subscription amounts related to unit subscriptions under the Q1-2009 Equity Offering, and were satisfied in the six months ended September 30, 2008 by the granting of equity units.

**Contributed surplus**

The amounts classified as contributed surplus are as follows:

	\$
<b>Balance, March 31, 2008</b>	307,316
Stock-based compensation expense recognized on employee stock options granted in prior periods	51,577
Stock-based compensation recognized on stock options granted in the period	<u>30,112</u>
<b>Balance, September 30, 2008</b>	<u>389,005</u>

**GREAT PACIFIC INTERNATIONAL INC.**  
**Notes to the Consolidated Financial Statements**  
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Unaudited

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

**Warrants**

A summary of warrants granted, expired and exercised in the six months ended September 30, 2008 is as follows:

	Number of warrants	Weighted Average Exercise Price per warrant \$
<b>Warrants outstanding, March 31, 2008</b>	1,996,000	0.60
Granted	2,000,000	1.00
Exercised	(48,000)	1.00
<b>Warrants outstanding, September 30, 2008</b>	<u>3,948,000</u>	<u>0.80</u>
<b>Warrants exercisable September 30, 2008</b>	<u>3,948,000</u>	<u>0.80</u>

Warrants outstanding at September 30, 2008 have a weighted average remaining life of 1 year.

A summary of share purchase warrants outstanding is as follows:

Exercise Price	Expiry Date	Warrants outstanding
\$0.60	March 9, 2009	1,996,000
\$1.00	April 14, 2010	<u>1,952,000</u>
		<u>3,948,000</u>

**Stock options**

The Company established a stock option plan in the year ended March 31, 2006 under which it may grant stock options totalling in aggregate up to 10% of the Company's total number of shares issued and outstanding on a non-diluted basis. The stock option plan provides for the granting of stock options to regular employees and persons providing investor-relations or consulting services up to a limit of 5% and 2% respectively of the Company's total number of issued and outstanding shares per year. The option price must be greater or equal to the discounted market price on the grant date and the option expiry date cannot exceed five years after the grant date. The stock options vest immediately on the date of the grant or over a period of time determined by the Board of Directors.

**GREAT PACIFIC INTERNATIONAL INC.**  
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Unaudited

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

**Stock options (continued)**

A summary of employee stock options granted, expired and exercised in the six months ended September 30, 2008 is as follows:

	Number of options	Weighted Average Exercise Price per Option \$
<b>Balance, March 31, 2008</b>	1,816,000	1.02
Granted	390,000	2.01
Cancelled	(10,000)	(1.67)
<b>Balance, September 30, 2008</b>	<u>2,196,000</u>	<u>\$1.19</u>
<b>Options exercisable, September 30, 2008</b>	<u>1,005,000</u>	<u>\$0.49</u>

Of the unvested options outstanding at September 30, 2008, 128,000 vest in the remainder of the fiscal year ended March 31, 2009, having a weighted average exercise price of \$1.77 per share.

A summary of stock options outstanding is as follows:

Number of shares	Exercise price \$	Expiry Date
235,000	0.35	May 21, 2009
481,000	0.35	October 3, 2010
200,000	0.45	September 8, 2011
890,000	\$1.25 - \$1.83	February 18, 2013
390,000	\$1.50 - \$2.20	April 14, 2013
<u>2,196,000</u>		

The total stock based compensation recognized for stock options granted to employees in the six months ended September 30, 2008 under the fair value method using the Black-Scholes option pricing model was \$273,360 being \$0.80 per option. There is an unamortized balance of \$490,316 to be recognized into stock-based compensation expense over the period ended April 14, 2013, relating to the earning and vesting of outstanding options that are granted but not exercisable at September 30, 2008.

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

**Stock options (continued)**

The following weighted average assumptions were used in the Black-Scholes option pricing model:

	Fiscal 2009	Fiscal 2008
Risk-free interest rate	2.97%	3.15%
Expected life of options	5 years	5 years
Annualized volatility	75%	69%
Dividend rate	0.00%	0.00%

**9. COMMITMENTS**

Significant commitments at September 30, 2008 are as follows:

**Midland Basin prospect area**

Upon acquiring its participation rights to the Midland Basin prospect area, the Company committed to participate in the drilling of an initial test well, to a 17.3% interest.

At September 30, 2008, drilling on the initial test well was on-going. The Company's proportionate share of the costs of drilling completed to September 30, 2008 totalled approximately \$122,000. These costs are included in "Oil and gas properties". At September 30, 2008, the Company retains a firm commitment to participate in the remainder of the drilling to a pre-specified depth. This drilling was completed subsequent to September 30, 2008, at a cost to the Company of a further \$80,000. The initial test well was not successful; however, we retain our participation rights to the entire prospect area.

**Management services agreement**

The Company has entered into a management services agreement for a term of five years expiring on September 9, 2009, paying \$5,000 per month for the services of our President, terminable on 12 months notice (Note 12).

**10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

**Changes in non-cash working capital items**

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

	Three months ended September 30,		Six months ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Accounts receivable, advances recoverable and prepaid expenses	(8,677)	(2,752)	(41,173)	(18,446)
Accounts payable and accrued liabilities	(67,392)	5,282	(43,978)	26,939
<b>Changes in non-cash working capital items</b>	<b>(76,069)</b>	<b>2,530</b>	<b>(85,151)</b>	<b>8,493</b>

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**10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (Continued)**

**Significant non-cash investing and financing transactions**

- a) Included in accounts payable and accrued liabilities at September 30, 2008 are \$34,900 (March 31, 2008: \$40,770) in oil and gas property expenditures and \$-nil in accrued finders' fees (March 31, 2008: \$31,102).
- b) In the six months ended September 30, 2008, the company issued 1,127,600 equity units pursuant to the Q1-2009 Equity Offering in satisfaction of share subscriptions received in the prior period. As a result, the Company reclassified \$814,598 from share subscriptions received in advance to share capital in the quarter. The reclassified amount consisted of share subscriptions of \$845,700, less accrued finders' fees of \$31,102.
- c) The carrying value of the oil and gas properties includes \$456,586 in capitalized estimated future reclamation and asset retirement costs (March 31, 2008: \$459,293). The balance of capitalized estimated future reclamation and asset retirement costs was reduced by \$2,707 pursuant to a re-estimation of the future reclamation costs of our Red Earth oil wells.

**11. SEGMENTED INFORMATION**

The Company operates in one business segment, being oil and gas exploration and production. The Company operates in two cost centres defined by geographic area, being Canada and the United States. The results of oil and gas operations are presented by geographic cost centre, as follows:

	Three months ended		Six months ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
	\$	\$	\$	\$
<b>Revenue from oil and gas sales</b>				
Canada	60,467	89,406	139,752	91,015
United States	4,376	2,083	7,012	3,547
<b>Total revenue from oil and gas sales</b>	<b>64,843</b>	<b>91,489</b>	<b>146,764</b>	<b>94,562</b>
<b>Oil and gas operating costs, including depletion and accretion</b>				
Canada	261,267	82,809	350,320	88,965
United States	145,851	2,094	148,022	3,433
<b>Total operating costs</b>	<b>407,118</b>	<b>84,903</b>	<b>498,342</b>	<b>92,398</b>

The Company's corporate assets are all in Canada. The Company's oil and gas assets are located in Alberta, Canada, Texas, U.S.A. (the Midland Basin prospect area), and Arkansas, U.S.A. Total assets located in the U.S.A. have a carrying value of \$101,474.

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**12. SUBSEQUENT EVENTS**

Significant subsequent events not disclosed elsewhere herein are as follows:

Property forfeiture and expiries

*Haro East and RLE Red Earth farm-in properties*

In the prior fiscal year ended March 31, 2008, the Company acquired options to acquire working interests in certain Alberta P & NG leases. These options, collectively referred to as the "Haro East and RLE Red Earth farm-in", granted the Company the right to acquire working interests in the "Haro East" and "RLE Red Earth" properties by drilling a total of 3 earn-in wells in the fiscal year ended March 31, 2009. The Company held these options in good standing at September 30, 2008.

Pursuant to the option agreements, the Company placed a \$100,000 drilling deposit in trust with the property farmor, to be applied against the cost of drilling the earn-in wells.

Subsequent to September 30, 2008, the Company decided not to proceed with drilling the earn-in wells required pursuant to the Haro East farm-in and the RLE Red Earth farm-in agreements. Accordingly, the Company forfeited its drilling deposit, and at September 30, 2008 classified pre-drill capital costs incurred on those properties, totalling \$154,000 to "oil and gas expenditures subject to depletion. As a result of this election not to drill those three earn-in wells, the Company expects to forfeit all rights to the Haro East and the RLE Red Earth farm-in lands in December, 2008.

The Company has no additional commitments in respect of those farm-in agreements. The Company will retain a 65% working interest in two adjacent sections of petroleum and natural gas leases acquired in the current fiscal period.

*Manitoba properties*

The Company's remaining petroleum leases in Manitoba lapsed at the end of their lease term.

Management services agreement

Subsequent to September 30, 2008, the Company amended its management service agreement. Pursuant to the amended terms of the agreement, fees of \$10,000 per month are paid for the services of the President of the Company.

Operating dispute on Canadian oil and gas properties

The Company is involved in a dispute with the incumbent operator of its 36%-owned Canadian oil and gas properties. The Company has in the past had difficulty in obtaining timely accounting and payment for its share of production revenue, and is presently owed approximately \$72,000 on account of unauthorized expenses deducted from past production. The Company retained legal counsel to attempt to collect this amount and has elected to "take in kind" its future share of production revenue at the point of sale.

The Company has been advised that the present purchaser of oil and gas has given one month's notice of termination of the arrangements for purchase of product from the operator. The Company is awaiting information as to the implementation of the "take in kind" rights it has to its share of production.

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**12. SUBSEQUENT EVENTS (Continued)**

Impact of world- wide commodity price adjustments

Since September 30, 2008 the benchmark price of oil has decreased from US \$100/barrel to approximately US \$54/barrel at the date of completion of these financial statements. This continues a slide from a high of approximately US\$ 145/barrel in the last six months. Substantially all of the Company's production is derived from its Alberta properties which have cash operating costs of approximately Cdn \$40/barrel. The Company's operating cash flow is expected to decline significantly during the next several months, which corresponds with its peak production months, to the extent that production, if any, will be only marginally profitable.

Shares issued for cash

The Company issued 120,000 common shares on stock option exercises for cash proceeds of \$52,000.

**13. FINANCIAL INSTRUMENTS**

The Company classifies its financial instruments as follows:

- Cash as "held for trading"
- Accounts receivable, advances recoverable and prepaid expenses as "loans and receivables"
- Long term investment as "available for sale securities" measured at fair value
- Accounts payable and accrued liabilities as "other liabilities" measured at amortized cost.

The Company is not in a position of material default in respect of any of its financial instruments at September 30, 2008. Furthermore, the Company has not recorded any impairment losses on financial instruments in the six months ended September 30, 2008.

The Company had no "other comprehensive income or loss" transactions during the six months ended September 30, 2008 and no opening or closing balances for accumulated other comprehensive income or loss.

**Concentration of credit risk**

Cash

The Company does not believe it is subject to any significant credit risk with respect to cash, even though it is held in excess of federally insured limits with a single major banking institute.

Accounts receivable

At September 30, 2008 28% of the total balance of accounts receivable, advances recoverable and prepaid expenses is owing from a single counterparty. This amount totals approximately \$72,000. As a result, the Company is exposed to material credit risk. This amount is owing from the operator of the Company's Alberta oil properties. Management is confident the Company has sufficient recourse to ensure repayment. Accordingly, no provision for impairment has been recorded against this amount.

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**13. FINANCIAL INSTRUMENTS (Continued)**

Accounts receivable (continued)

The Company grants credit to its customers in the normal course of business. Furthermore, accounts receivables also arise from normal joint operating arrangements governing the Company's producing oil and gas properties. Credit valuations are performed on a regular basis and the financial statements take into account any requirement for an allowance for bad debts.

Advances recoverable

As of September 30, 2008, 27% of the total balance of accounts receivable, advances recoverable and prepaid expenses is owing from a single counterparty, being a director of the Company. This amount was extended as an expense advance for expenses expected to be incurred by that director on the Company's behalf in the normal course of the Company's operations. The Company expects that these funds will be substantially applied against offsetting expenses by March 31, 2009.

**Interest rate risk**

The Company is not subject to material interest rate risk as it does not have any interest bearing debt.

**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 particularly realized the impact of commodity price decreases subsequent to September 30, 2008, when a material decrease in prevailing oil and gas prices rendered the Company's main production assets marginally economic. As a result of this, the Company expects to sustain a material decrease in operating cash flow from its oil and gas properties until a significant increase in commodity prices occurs.

**Foreign exchange risk**

The Company is subject to foreign exchange risk as fluctuations in the value of the Canadian dollar relative to the United States dollar impacts the realized Canadian dollar value of its oil sales (as oil is denominated in United States dollars), while our operating expenses are primarily incurred in Canadian dollars. Moreover, the Company is exposed to foreign exchange risk as its commitments under the Midland Basin prospect area are denominated in United States dollars, and a relative depreciation of the Canadian dollar would increase the effective cost of participating in that property.

Subsequent to September 30, 2008, a sustained depreciation of the Canadian dollar had a significantly negative impact on the Canadian-dollar cost of funding the Midland Basin prospect area drilling commitments.

### **13. FINANCIAL INSTRUMENTS (Continued)**

#### **Capital market risk and liquidity risk**

The Company is a development stage enterprise, and is accordingly reliant on external financings to fund day to day operations. As a result of this, our operations are materially sensitive to our cost of capital which is subject to macro-economic factors beyond our control.

Recently, the cost of equity capital has increased significantly, and a scarcity of risk capital is observed. Accordingly, management has assessed that significant risk may exist in respect of our ability to raise sufficient acceptably-priced equity financing to carry out our exploration and development goals and meet our future asset retirement obligations.

### **14. CAPITAL MANAGEMENT**

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 September 30, 2008 the Company lacked 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 defines managed capital as shareholders' equity. Our targeted capital structure approaches 100% shareholder equity. Towards that end, we had no debt securities outstanding at September 30, 2008 or March 31, 2008. 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.

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 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, as in the absence of positive cash flows from operations, any debt obtained must be retired with funds raised through equity financing.

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.

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**14. CAPITAL MANAGEMENT (Continued)**

At September 30, 2008, the Company does not have adequate capital to complete its business development plans and fund corporate overhead for the forthcoming 12 month period. Accordingly, management is seeking one or more equity financings in the remainder of fiscal 2009. The Company is seeking financing of at least \$600,000 in the balance of the 12 month period ending September 30, 2009. Additional financing beyond that amount will be required in order to finance the capital expenditures on petroleum exploration and development required for the Company to achieve its development stage business goals and achieve a self-sustaining level of revenue.

Financing, and thus capital spending, will generally be limited to the extent that capital is available on acceptable terms. The acceptability of financing terms is generally determined by reference to the prevailing market price of our shares. The terms on which we obtain financings are furthermore subject to the guidelines of the TSX-V.

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

At the balance sheet dates presented, components of managed capital consist of the following:

	September 30, 2008 \$	March 31, 2008 \$
Oil and gas properties, net of future asset retirement obligations	1,217,972	1,200,799
Drilling deposit	-	100,000
<b>Net oil and gas assets</b>	<b>1,217,972</b>	<b>1,300,799</b>
<b>Equipment</b>	<b>86,482</b>	<b>15,313</b>
Cash	163,409	634,442
Other financial instruments, net	125,558	(145,189)
<b>Net financial assets</b>	<b>288,967</b>	<b>489,253</b>
<b>Total managed capital</b>	<b>1,593,421</b>	<b>1,805,365</b>