

**GREAT PACIFIC INTERNATIONAL INC.**

**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**SECOND QUARTER REPORT**

**For the six months ended**

**September 30, 2009 and 2008**

*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  
SEPTEMBER 30, 2009**

Prepared by management

	September 30 2009 (Unaudited) \$	March 31, 2009 (Audited) \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	3,591	21,881
Accounts receivable (Note 3)	46,905	72,101
Prepaid expenses	3,627	12,328
Amounts due from related parties (Note 4)	30,925	123,182
	<u>85,048</u>	<u>229,492</u>
<b>Oil and gas properties</b> (Note 5)	1,221,675	1,217,450
<b>Equipment</b> (Note 6)	<u>11,634</u>	<u>57,862</u>
<b>TOTAL ASSETS</b>	<u><b>1,318,357</b></u>	<u><b>1,504,804</b></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	470,190	338,425
Amounts due to related parties (Note 8)	101,755	38,054
Loans payable	9,000	-
Provision for current future asset retirement obligations (Note 7)	173,225	93,247
	<u>754,170</u>	<u>469,726</u>
<b>Provision for long-term future asset retirement obligations</b> (Note 7)	<u>291,066</u>	<u>321,461</u>
	<u>1,045,236</u>	<u>791,187</u>
<b>Shareholders' equity</b>		
Share capital (Note 9)	9,706,508	9,706,508
Contributed surplus (Note 9)	541,020	455,077
Deficit	(9,974,407)	(9,447,968)
	<u>273,121</u>	<u>713,617</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u><b>1,318,357</b></u>	<u><b>1,504,804</b></u>

On behalf of the Board:

"Thal S. Poonian" Director "Ronald Bobowski" Director  
**Thal S. Poonian** **Ronald Bobowski**

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

**Nature of operations and going concern (Note 1)**  
**Commitments and contingency (Note 10)**  
**Subsequent events (Note 15)**

**GREAT PACIFIC INTERNATIONAL INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**  
**INTERIM PERIODS ENDED SEPTEMBER 30, 2009 AND 2008**

	Three months ended September 30,		Six months ended September 30,	
	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	\$	\$	\$	\$
<b>REVENUE</b>				
Oil and natural gas sales	47,150	64,843	69,016	146,764
Less: royalties	(2,139)	-	(2,218)	-
	<u>45,011</u>	<u>64,843</u>	<u>66,798</u>	<u>146,764</u>
<b>Oil and gas production costs</b>				
Operating expenses	28,639	15,949	47,757	45,061
Depletion, depreciation and accretion (Notes 5 and 7)	44,399	391,169	67,193	453,281
	<u>(28,027)</u>	<u>(342,275)</u>	<u>(48,152)</u>	<u>(351,578)</u>
<b>EXPENSES</b>				
Accounting and audit	35,129	29,970	64,379	54,690
Amortization (Note 6)	3,966	967	12,930	2,841
Bank charges and interest	425	-	3,005	-
Consulting fees (Note 8)	40,698	37,407	78,405	71,366
Insurance	2,085	8,718	8,686	16,485
Management fees (Note 8)	45,000	30,000	90,000	60,000
Office and miscellaneous	17,834	22,610	32,762	36,605
Professional fees	730	3,483	5,665	25,718
Property and investment evaluation expense	-	84,656	1,116	112,752
Shareholder and corporate communication	12,836	41,614	14,390	62,877
Regulatory and transfer agent fees	5,039	4,660	9,498	7,917
Rent	14,550	14,550	29,100	26,550
Stock-based compensation (Note 9)	42,581	30,386	85,943	81,688
Travel and entertainment	8,886	18,031	26,472	38,089
	<u>229,759</u>	<u>327,052</u>	<u>462,351</u>	<u>597,578</u>
<b>Loss before other income (expenses)</b>	<u>257,786</u>	<u>669,327</u>	<u>510,503</u>	<u>949,156</u>
<b>OTHER INCOME (EXPENSES)</b>				
Foreign exchange loss	8,585	2,370	9,023	2,496
Interest income on related party advances (Note 4)	(255)	-	(386)	-
Vehicle cost recoveries, net of vehicle expenses (Note 6)	7,298	(4,018)	7,298	(5,400)
	<u>15,628</u>	<u>(1,648)</u>	<u>15,935</u>	<u>(2,904)</u>
<b>Loss and comprehensive loss for the period</b>	<u>273,414</u>	<u>667,679</u>	<u>526,438</u>	<u>946,252</u>
<b>Deficit, beginning of period</b>	<u>9,700,993</u>	<u>7,740,975</u>	<u>9,447,969</u>	<u>7,462,402</u>
<b>Deficit, end of period</b>	<u>9,974,407</u>	<u>8,408,654</u>	<u>9,974,407</u>	<u>8,408,654</u>
<b>Basic and diluted loss per common share</b>	<u>\$(0.01)</u>	<u>\$(0.03)</u>	<u>\$(0.02)</u>	<u>\$(0.04)</u>
<b>Weighted average number of common shares outstanding</b>	<u>22,411,433</u>	<u>22,267,020</u>	<u>22,411,433</u>	<u>22,156,930</u>

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

**GREAT PACIFIC INTERNATIONAL INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**INTERIM PERIODS ENDED SEPTEMBER 30, 2009 AND 2008**

Prepared by management

	Three months ended September 30,		Six months ended September 30,	
	2009 (Unaudited) \$	2008 (Unaudited) \$	2009 (Unaudited) \$	2008 (Unaudited) \$
<b>OPERATING ACTIVITIES</b>				
Loss for the period	(273,414)	(667,679)	(526,438)	(946,252)
Items not affecting cash:				
Depletion and accretion	44,399	391,169	67,193	453,281
Amortization	11,264	4,687	20,228	7,015
Stock-based compensation	42,581	30,386	85,943	81,688
	(175,170)	(241,437)	(353,074)	(404,268)
Changes in non-cash working capital items (Note 11)	67,068	(76,069)	165,661	(85,151)
<b>Net cash used in operating activities</b>	<b>(108,102)</b>	<b>(317,506)</b>	<b>(187,413)</b>	<b>(489,419)</b>
<b>INVESTING ACTIVITIES</b>				
Acquisition, exploration and development of oil and gas properties	8,810	(191,026)	(21,835)	(376,323)
Disposition (acquisition) of equipment (Note 6)	-	(1,554)	15,000	(78,184)
<b>Net cash used in investing activities</b>	<b>8,810</b>	<b>(192,580)</b>	<b>(6,835)</b>	<b>(454,507)</b>
<b>FINANCING ACTIVITIES</b>				
Shares issued for cash, net of cash share issuance costs	-	48,000	-	621,517
Loans received	9,000	-	9,000	-
Advances from (repayments to) related parties	47,961	-	63,701	-
Repayments (advances to) related parties	44,646	(95,409)	103,257	(148,624)
<b>Net cash provided by financing activities</b>	<b>101,607</b>	<b>(47,409)</b>	<b>175,958</b>	<b>472,893</b>
<b>Change in cash in the period</b>	<b>2,315</b>	<b>(557,495)</b>	<b>(18,290)</b>	<b>(471,033)</b>
<b>Cash, beginning of period</b>	<b>1,276</b>	<b>720,904</b>	<b>21,881</b>	<b>634,442</b>
<b>Cash, end of period</b>	<b>3,591</b>	<b>163,409</b>	<b>3,591</b>	<b>163,409</b>

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

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

## **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 September 30, 2009 the Company has a working capital deficiency of \$669,121 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 September 30, 2010. 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 \$1,400,000 of equity financing in the twelve months ended September 30, 2010.

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**

The balance sheet as at September 30, 2009 and March 31, 2009, and the results of operations for the three and six months ended September 30, 2009 and 2008 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, 2009. 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 to the current quarter's presentation.

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

### **New accounting policies**

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

The following accounting policy was adopted in the period ended September 30, 2009:

#### Goodwill and intangible assets – Section 3064

Effective April 1, 2009, the Company adopted the new Canadian accounting pronouncement “Goodwill and intangible assets, Section 3064” This new pronouncement replaces the former CICA Handbook Section 3062, Goodwill and Intangible Assets and Section 3450 Research and Development Costs. It establishes enhanced standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company does not expect the adoption of this new Section to have a material effect on its financial statements.

In future periods the Company will adopt the following pronouncements of the Canadian Institute of Chartered Accountants (“CICA”):

#### 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.

#### International Financial Reporting Standards (“IFRS”)

The Canadian Accounting Standards Board (“AcSB”) has published a strategic plan that calls for the convergence of Canadian GAAP 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. For the Company this will require all interim and financial statements commencing April 1, 2011 to be based upon IFRS.

**GREAT PACIFIC INTERNATIONAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Unaudited – prepared by management**

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

**New accounting policies**

International Financial Reporting Standards (“IFRS”) (Continued)

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>September 30, 2009</b>	<b>March 31, 2009</b>
	\$	\$
Net revenue and cost recoveries receivable from oil and gas property operators, net of allowance	38,118	60,081
Recovery of goods and services tax	8,787	12,020
	<u><b>46,905</b></u>	<u><b>72,101</b></u>

**4. AMOUNTS DUE FROM RELATED PARTIES**

Amounts due from related parties consist of the following balances:

	<b>September 30, 2009</b>	<b>March 31, 2009</b>
	\$	\$
Advances due from a Director for future management fees and expenses	-	61,757
Vehicle rental charged to a private company controlled by a Director (a)	19,925	61,425
Note receivable from a private company controlled by a Director (b)	11,000	
	<u><b>30,925</b></u>	<u><b>123,182</b></u>

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

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

- (a) A private company controlled by a Director rented vehicles owned by the Company for certain periods during the fiscal year ended March 31, 2009.
- (b) A private company controlled by a Director purchased vehicles from the Company

**GREAT PACIFIC INTERNATIONAL INC.**  
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**5. OIL AND GAS PROPERTIES**

Amounts presented as oil and gas properties at September 30, 2009 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>
Balance, March 31, 2008	1,660,352	17,122	1,677,474
Acquisition of oil and gas property interests	60,006	104,767	164,773
Drilling deposit forfeited	100,000	-	100,000
Re-estimated future asset retirement obligations (Note 7)	(99,152)	-	(99,152)
Exploration and development of oil and gas properties	145,836	221,054	366,890
Depletion and depreciation	(719,233)	(273,302)	(992,535)
<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 and property carrying costs	21,837	-	21,837
Future asset retirement obligations capitalized on property interest acquisition	26,729	-	26,729
Re-estimated future asset retirement obligations (Note 7)	5,429	-	5,429
Depletion and depreciation	(48,308)	(1,461)	(49,770)
<b>Balance, September 30, 2009</b>	<b>1,153,496</b>	<b>68,180</b>	<b>1,221,676</b>

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

	<b>September 30, 2009</b>	<b>March 31, 2009</b>
	<b>\$</b>	<b>\$</b>
<b>Canada</b>		
Oil and gas expenditures subject to depletion and depreciation	724,688	673,462
Oil and gas expenditures not subject to depletion and depreciation	428,807	474,347
	<b>1,153,495</b>	<b>1,147,809</b>
<b>United States</b>		
Oil and gas expenditures subject to depletion and depreciation	11,681	13,142
Oil and gas expenditures not subject to depletion and depreciation	56,499	56,499
	<b>68,180</b>	<b>69,641</b>
<b>Oil and gas properties</b>	<b>1,221,675</b>	<b>1,217,450</b>

**GREAT PACIFIC INTERNATIONAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**5. OIL AND GAS PROPERTIES (Continued)**

**Acquisition**

In the six months ended September 30, 2009, the Company acquired the following oil and gas property interest:

3-20 project – additional interest

As set forth in the audited financial statements of the Company as at March 31, 2009, the Company's interest in the "3-20 project" at March 31, 2009 consisted of a 37.5% interest in the "3-20 wellbore", and a 75% interest in 108 ha of adjoining petroleum and natural gas leases, subject to convertible gross over-riding royalties of 5 – 15%.

In the six months ended September 30, 2009, the Company's interest in the 3-20 well-bore increased to 60%, as a result of the default of a third-party joint interest-holder in that property. Pursuant to the joint venture agreement governing the property, as a result of the default by that party, the Company was deemed to have acquired its proportionate share of the defaulting working interest. The Company was obligated to reimburse the operator \$8,629 being the Company's proportionate share of the amount in default.

Upon the acquisition of the Company's interest, the Company recorded a current provision for future asset retirement obligations of \$26,729 attributable to the additional well-bore interest obtained.

**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.

The forecasted future price used in the ceiling test evaluations of the Company's oil and gas interests at March 31, 2009 are as follows:

	2009	2010	2011	2012	2013	2014	Increase thereafter to 2019
Oil (Edmonton light sweet 40° API C\$/Bbl)	\$67	\$73	\$78	\$83	\$88	\$96	2.0% per year
Natural gas (Alberta average field C\$/MMBtu)	\$4.08	\$5.75	\$6.75	\$7.50	\$8.00	\$8.15	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.

**GREAT PACIFIC INTERNATIONAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**6. EQUIPMENT**

	September 30, 2009			March 31, 2009		
	Cost \$	Accumulated Amortization \$	Net Book Value \$	Cost \$	Accumulated Amortization \$	Net Book Value \$
Computers and office equipment	58,416	(50,879)	7,537	58,416	(47,469)	10,947
Vehicles	24,991	(20,894)	4,097	78,184	(31,269)	46,915
<b>Equipment</b>	<b>83,407</b>	<b>(71,773)</b>	<b>11,634</b>	<b>136,600</b>	<b>(78,738)</b>	<b>57,862</b>

In the six months ended September 30, 2009, the Company sold two four-wheel drive trucks, with associated equipment for aggregate proceeds of \$26,000. The Company received cash consideration of \$15,000, and a note receivable of \$11,000 to be paid on or before September 15, 2009, the note was repaid subsequent to September 30, 2009.

**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, licensing requirements, and contractual obligations.

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 \$
2010	180,000
2011	72,000
2012	53,000
2015	55,000
2017	70,000
2018	58,000
Thereafter to 2025	310,000
	<u>798,000</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.

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**7. FUTURE ASSET RETIREMENT OBLIGATIONS (Continued)**

In determining the fair value of the future asset retirement obligation at September 30, 2009, the estimated undiscounted asset retirement cash flows were discounted using a credit adjusted risk-free rate of 8% and an inflation rate of 1.8%.

Asset retirement obligations are performance-based commitments, and may vary materially from estimated amounts.

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

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

	<b>\$</b>
Balance, March 31, 2008	476,675
Accretion	37,185
Change in estimated future cash flows	(99,152)
	<u>414,708</u>
Reclassification of asset retirement obligations expected to be settled in the current period	(93,247)
	<u>321,461</u>
<b>Balance, March 31, 2009</b>	<b>321,461</b>
Accretion	13,200
Future asset retirement obligations capitalized	26,729
Change in estimated future cash flows	5,429
	<u>366,819</u>
Reclassification of asset retirement obligations expected to be settled in the current period	(75,753)
	<u>291,066</u>
<b>Balance, September 30, 2009</b>	<b>291,066</b>

**Current provision for future asset retirement obligations**

At September 30, 2009, the Company has a current provision for future asset retirement obligations of \$173,225 (March 31, 2009: \$93,247).

The Company recorded the current provision in respect of asset retirement obligations which it expects to settle in the twelve months ended September 30, 2010. The provision relates to the estimated costs of retiring five suspended well-bores, on properties which either have a lease expiring prior to September 30, 2010, or in respect of which the operator has provided the Company an abandonment proposal.

**8. RELATED PARTY TRANSACTIONS AND BALANCES**

Related party transactions and balances entered into during the six month period ended September 30, 2009 and the comparative period ended September 30, 2008 ("September 30, 2008"), and not disclosed elsewhere in these financial statements, are as follows:

- (a) The Company paid or accrued management fees to three officers totalling \$90,000 (2008: \$60,000).
- (b) Consulting fees includes \$3,000 (2008: \$3,000) in corporate communication fees paid to a director of the Company.

**GREAT PACIFIC INTERNATIONAL INC.**  
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**Unaudited – prepared by management**

**8. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)**

- (c) The Company paid or accrued professional fees of \$-nil (2008 \$27,710) to related parties. Of the professional fees paid or accrued to related parties at September 30, 2008, \$11,835 was capitalized as oil and gas property expenditures.
- (d) The Company paid or accrued professional geological fees to a private company controlled by a director, totalling \$nil (September 30, 2008: \$ 2,265).
- (e) The Company paid finders' fees of \$nil to a relative of a director in connection with a private placement offering (September 30, 2008 \$75,000).
- (f) Nil stock options were granted to related parties (September 30, 2008: 340,000 having exercise prices escalating from \$1.50 per share to \$2.20 per share).
- (g) 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 in a - c), above, and for expense reimbursements.

**9. SHARE CAPITAL AND CONTRIBUTED SURPLUS**

**Share capital**

Shares authorized, issued and outstanding at September 30, 2009 are as follows:

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

Issued: 22,411,433 common shares (March 31, 2009: 22,411,433 common shares)  
Nil preferred shares (March 31, 2009: Nil preferred shares)

The Company issued no shares in the period ended September 30, 2009.

**Contributed surplus**

The amounts classified as contributed surplus are as follows:

	<u>Amount</u>
	<u>\$</u>
<b>Balance, March 31, 2009</b>	<u>455,077</u>
Stock-based compensation on stock options granted in prior periods	<u>85,943</u>
<b>Balance, September 30, 2009</b>	<u><u>541,020</u></u>

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

**Warrants**

At September 30, 2009 and March 31, 2009 the Company has 1,952,000 share purchase warrants outstanding. Each warrant entitles the holder to purchase 1 common share of the Company for \$1.00 on or before April 14, 2010. At September 30, 2009 warrants outstanding have a weighted average remaining life of 6.4 months.

**Incentive stock options**

At September 30, 2009 the Company has 1,736,000 incentive stock options issued and outstanding (March 31, 2009: 1,951,000 options). No options were granted or exercised in the period ended September 30, 2009.

In the six months ended September 30, 2009, 215,000 stock options having an exercise price of \$0.35 per share expired unexercised.

The terms of incentive stock options issued and outstanding at September 30 and March 31, 2009 are as follows:

<u>Exercise price (\$)</u>	<u>Expiry Date</u>	<u>September 30, 2009</u>		<u>March 31, 2009</u>	
		<u>Outstanding</u>	<u>Exercisable</u>	<u>Outstanding</u>	<u>Exercisable</u>
1.65	April 14, 2013 ("FY-2009 options")	390,000	78,000	390,000	39,000
1.38	February 18, 2013 ("FY-2008 options")	865,000	173,000	865,000	173,000
0.35	October 3, 2010	481,000	481,000	481,000	481,000
0.35	May 21, 2009	-	-	215,000	215,000
<b>Options outstanding and exercisable, end of period</b>		<b>1,736,000</b>	<b>732,000</b>	<b>1,951,000</b>	<b>908,000</b>

The FY-2009 options vest as to 10% every six months, commencing October 14, 2008. The initial exercise price was \$1.50 per share escalating at 10% per year on each anniversary date up to \$2.20 per share through fiscal 2014. As a result of an initial escalation on the first anniversary date, the exercise price of FY-2009 options vested at September 30, 2009 was \$1.65 per share.

The FY-2008 options vest as to 10% every six months, commencing August 18, 2008. The initial exercise price was \$1.25 per share, escalating at 10% per year on each anniversary date up to \$1.83 per share through fiscal 2013. As a result of an initial escalation on the first anniversary date, the exercise price of 2008 options vested at September 30, 2009 was \$1.38 per share at September 30, 2009.

In the six months ended September 30, 2009, the Company recognized \$85,100 of stock-based compensation expense in respect of incentive stock options granted to employees and directors in prior periods (2008: \$81,688), leaving an unamortized balance of \$587,287 to be recognized through fiscal 2014. The value of stock-based compensation granted to employees is recognized on a straight-line basis over the estimated term/vesting period of the options, being 5 years.

The stock-based compensation recognized for stock options granted to non-employees in the period was \$873 (2008: \$12,253). Incentive stock options granted to non-employees are recorded at fair value measured at the performance completion date.

## **10. COMMITMENTS AND CONTINGENCY**

### Midland Basin Prospect area

In order to maintain its participation rights in the Midland Basin prospect area, the Company must participate in future approved oil and gas exploration and development activities conducted by the prospect area operator or the other co-venturers. At September 30, 2009 and subsequent thereto, there are no authorized work programs pending. Should the operator propose additional exploration and development programs within the prospect area, the Company would have thirty days to elect to participate and to advance its share of the estimated program costs. The Company's right to participate in future exploration and development within the prospect block is subject to paying our past liabilities in respect of this property, totalling approximately \$36,000.

Our participation rights to the Midland Basin Prospect area expire in the twelve months ended September 30, 2010 should no further drilling be undertaken on the prospect lands in the interim, and are subject to the Operator's right of non-judicial foreclosure in respect of our past liabilities.

### Workovers on producing wells

In March, 2009, two of the Company's producing oil properties near Red Earth, Alberta, went off production due to equipment failure. In order to restore production from these wells, re-work expenditures estimated to cost \$50,000 will be required. As a joint participant and 36% interest holder in those wells, the Company is obliged to participate, to its working interest, in the cost of those work programs. The Company's share of any such approved re-work and rehabilitation expenditures is estimated at \$18,000.

### Property lease payments

In order to keep the Company's Alberta Crown leases in good standing, the Company must pay lease expenses totalling \$20,000 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.

### Operations required to maintain title in current period

In the period ended March 31, 2010, the Company must complete an economic well on its Rainbow Lake property in order to maintain title to that undeveloped property. The Company has recorded acquisition and development costs of \$73,025 in respect of its 18% interest in the Rainbow Lake property.

### Operations required to maintain title in current period (continued)

The Company will be required to participate in the abandonment of a well-bore on the Rainbow Lake property prior to March 31, 2010 should economic production not be achieved.

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**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 (at the time) 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.

Prior to a trial, the Company 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 former 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 September 30, 2009.

In the quarter ended September 30, 2009, the former operator ceased operatorship of the Company's producing oil properties, but continues to act as the operator of certain non-operating petroleum properties in which the Company holds varying minority working interests.

**Management services agreement**

The Company has entered into a management services agreement for a term of five years expiring on September 9, 2014 paying \$10,000 per month for the services of our President, terminable on 12 months notice.

**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</b>		<b>Six months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Decrease (increase) in accounts receivable	(8,488)	(8,677)	25,196	(41,173)
Decrease (increase) in prepaid expenses	2,085		8,701	
Increase (decrease) in accounts payable and accrued liabilities	73,471	(67,392)	131,765	(43,978)
<b>Changes in non-cash working capital items</b>	<b>67,068</b>	<b>(76,069)</b>	<b>165,662</b>	<b>(85,151)</b>

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**12. SEGMENTED INFORMATION**

In the periods ended September 30, 2009 and 2008, 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).

All oil and gas expenditures recorded in the six months ended September 30, 2009 were incurred in respect of the Canadian oil and gas properties. .

	Three months ended		Six months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
	\$	\$	\$	\$
<b>Revenue from oil and gas sales</b>				
Canada	44,808	60,467	65,897	139,752
United States	264	4,375	1,041	7,012
<b>Total revenue from oil and gas sales</b>	<b>45,072</b>	<b>64,843</b>	<b>66,938</b>	<b>146,764</b>

**13. FINANCIAL INSTRUMENTS AND RISK**

**Financial instruments**

The Company classifies its financial instruments as follows:

- Cash as “held for trading” measured at fair value;
- Accounts receivable and amounts due from related parties as “loans and receivables” measured at amortized cost; and
- Accounts payable and amounts due to related parties as “other liabilities” measured at amortized cost.

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.

The maximum amount of credit risk the Company is exposed to at September 30, 2009 is \$76,621 which consists of the face value of cash, accounts receivable and amounts due from related parties.

**Financial instrument risk**

Significant sources of financial instrument risk are detailed as follows:

Concentration of credit risk

*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.

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**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 97% 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, and a significant amount of our accounts receivable are regularly owing from that one party. At September 30, 2009 amounts owing from that party comprised 81% of the carrying value of accounts receivable (March 31, 2009: 71%).

Accounts receivables typically arise from normal joint operating arrangements governing the Company's producing oil and gas properties, and from cost-recovery billings. Credit valuations are performed on a regular basis and the financial statements take into account any requirement for an allowance for bad debts. The Company has recorded a provision for impairment to reduce the carrying value of accounts receivable to its estimated fair value.

*Amounts due from related parties*

At September 30, 2009 related party advances consist of vehicle rental revenue receivable and vehicle sales (Note 4). This amount is due on demand, and has no fixed terms.

The amounts due from related parties at September 30, 2009 are due from two parties, and default by either party would constitute a material loss.

**Financial instrument risk**

Interest rate risk

The Company is exposed to interest rate risk, as amounts owing to the operator of its Midland Basin Prospect area having a principal balance of approximately \$36,000 accrue interest at a variable rate of prime (Texas) + 1%. However, as 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 3% 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 \$68,872. 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 September 30, 2009, 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.

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

#### Liquidity risk

The Company faces material liquidity risk in that it has a significant working capital deficiency in excess of the servicing capacity of the Company's producing oil and gas assets, and additional material commitments coming due in the current period. The Company has insufficient cash and liquid resources on hand to satisfy its accounts payable and accrued liabilities should those debts be demanded on notice. 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 September 30, 2009 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.

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 \$1,100,000 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.

**Unaudited – prepared by management**

**14. CAPITAL MANAGEMENT (Continued)**

**Targeted financial structure (continued)**

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.

**15. SUBSEQUENT EVENTS**

Subsequent to September 30, 2009 the Company completed a private placement of 10,000,000 units, at a price of \$0.075 per unit, for total proceeds of \$750,000. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.15 per share until November 26, 2011. The Company will pay \$45,000 in cash finders fees and issue 600,000 agent warrants at \$0.15 per warrant for two years.