

GREAT PACIFIC INTERNATIONAL INC.

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2009 and 2008



MANNING ELLIOTT
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders of
Great Pacific International Inc.

We have audited the consolidated balance sheet of Great Pacific International Inc. as at March 31, 2009 and the consolidated statements of operations, comprehensive loss, deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures as at March 31, 2008 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those financial statements in their report dated July 7, 2008.

Manning Elliott LLP

Chartered Accountants

Vancouver, British Columbia

July 28, 2009

GREAT PACIFIC INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEETS
AS AT MARCH 31, 2009 AND 2008

	2009	2008
	\$	\$
ASSETS		
Current assets		
Cash	21,881	634,442
Accounts receivable (Note 3)	72,101	112,714
Prepaid expenses	12,328	13,754
Amounts due from related parties (Note 4)	123,182	1,708
	<u>229,492</u>	<u>762,618</u>
Oil and gas properties (Note 5)	1,217,450	1,677,474
Drilling deposit (Note 5)	-	100,000
Long-term investment (Note 6)	-	1
Equipment (Note 7)	57,862	15,313
	<u>1,504,804</u>	<u>2,555,406</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	338,425	204,709
Amounts due to related parties (Note 9)	38,054	68,657
Provision for current future asset retirement obligations (Note 8)	93,247	-
	<u>469,726</u>	<u>273,366</u>
Provision for long-term future asset retirement obligations (Note 8)	321,461	476,675
	<u>791,187</u>	<u>750,041</u>
Shareholders' equity		
Share capital (Note 10)	9,706,508	8,145,853
Contributed surplus (Note 10)	455,077	307,316
Share subscriptions received in advance (Note 10)	-	814,598
Deficit	(9,447,968)	(7,462,402)
	<u>713,617</u>	<u>1,805,365</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>1,504,804</u>	<u>2,555,406</u>

Nature of operations and going concern (Note 1)

Commitments and contingency (Note 12)

Subsequent events (Note 15)

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.

GREAT PACIFIC INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
YEARS ENDED MARCH 31, 2009 AND 2008

	2009	2008
	\$	\$
REVENUE		
Oil and natural gas sales (Note 14)	305,278	522,521
Less: royalties	(5,680)	(5,108)
	<u>299,598</u>	<u>517,413</u>
Oil and gas production costs		
Operating expenses	118,078	175,917
Depletion, depreciation and accretion (Notes 5 and 8)	1,029,720	388,391
	<u>1,147,798</u>	<u>564,308</u>
Loss from oil and gas operations	<u>(848,200)</u>	<u>(46,895)</u>
EXPENSES		
Accounting and audit	143,190	140,945
Amortization and impairment of equipment (Note 7)	28,822	7,095
Bank charges and interest	2,379	2,530
Consulting fees (Note 9)	144,369	110,663
Financing costs	-	25,000
Insurance	34,209	7,696
Management fees (Note 9)	151,188	142,330
Office and miscellaneous	62,884	55,044
Professional fees	91,322	63,963
Property and investment evaluation expense (Note 15)	134,315	5,901
Shareholder communication	74,822	57,692
Regulatory and transfer agent fees	22,135	37,635
Rent	55,650	48,000
Stock-based compensation (Note 10)	189,217	7,859
Travel and entertainment	61,315	79,020
	<u>(1,195,817)</u>	<u>(791,373)</u>
Loss before other income (expenses)	<u>(2,044,017)</u>	<u>(838,268)</u>
OTHER INCOME (EXPENSES)		
Foreign exchange gain	9,160	-
Interest income on related party advances (Note 4)	2,166	-
Gain on de-recognition of accounts payable	21,618	-
Provision for bad debts (Note 3)	(21,849)	-
Loss on long-term investment (Note 6)	(1)	(29,516)
Vehicle rental revenue, net of operating costs and depreciation (Note 7)	47,357	-
	<u>58,451</u>	<u>(29,516)</u>
Loss and comprehensive loss for the year	<u>(1,985,566)</u>	<u>(867,784)</u>
Deficit, beginning of year	<u>(7,462,402)</u>	<u>(6,594,618)</u>
Deficit, end of year	<u>(9,447,968)</u>	<u>(7,462,402)</u>
Basic and diluted loss per common share	<u>\$(0.09)</u>	<u>\$(0.05)</u>
Weighted average number of common shares outstanding	<u>22,274,947</u>	<u>18,625,736</u>

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

GREAT PACIFIC INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2009 AND 2008

	2009	2008
	\$	\$
OPERATING ACTIVITIES		
Loss for the year	(1,985,566)	(867,784)
Items not affecting cash:		
Depletion and depreciation	992,535	371,009
Accretion	37,185	17,382
Amortization and impairment of equipment	35,635	7,095
Stock-based compensation	189,217	7,859
Interest income on related party advances	(2,166)	-
Gain on de-recognition of accounts payable	(21,618)	-
Provision for bad debts	21,849	-
Vehicle rental revenue	(61,425)	-
Loss on long-term investments	1	29,516
Advances receivable	-	1
	<u>(794,353)</u>	<u>(434,922)</u>
Changes in non-cash working capital items (Note 13)	<u>120,177</u>	<u>(38,022)</u>
Net cash used in operating activities	<u>(674,176)</u>	<u>(472,944)</u>
INVESTING ACTIVITIES		
Acquisition, exploration and development of oil and gas property interests	(463,444)	(1,274,913)
Drilling deposit	-	(100,000)
Purchase of equipment (Note 7)	(78,184)	(21,832)
	<u>(541,628)</u>	<u>(1,396,745)</u>
Net cash used in investing activities	<u>(541,628)</u>	<u>(1,396,745)</u>
FINANCING ACTIVITIES		
Shares issued for cash, net of cash share issuance costs	673,553	1,111,590
Share subscriptions received	-	845,700
(Repayments to) advances from related parties	(12,427)	18,912
(Advances to) net of repayments from related parties	(57,883)	(1,708)
	<u>603,243</u>	<u>1,974,494</u>
Net cash provided by financing activities	<u>603,243</u>	<u>1,974,494</u>
Net cash (used in) provided by continuing operations	(612,561)	104,805
Net cash provided by discontinued operations (Note 14)	-	2,000
Cash, beginning of year	<u>634,442</u>	<u>527,637</u>
Cash, end of year	<u>21,881</u>	<u>634,442</u>

Supplemental cash flow information (Note 13)

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. Great Pacific commenced its oil and gas operations in the fiscal year ended March 31, 2007.

Great Pacific's oil and gas operations are primarily 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 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 March 31, 2009 the Company has a working capital deficiency of \$240,234, 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 March 31, 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 \$1,080,000 of equity financing in the twelve months ended March 31, 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, 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. 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., which was incorporated in British Columbia in the year ended March 31, 2008, GPI Oil and Gas Overseas Inc, which was incorporated in British Columbia in the year ended March 31, 2009, and GPI Petroleum Inc., which was incorporated in Texas, U.S.A. in the year ended March 31, 2009. The balance sheet as at March 31, 2008 and the comparative figures for the year then ended include, on a consolidated basis, the accounts 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".

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the periods reported. Significant estimates are required in the determination of the recoverability or valuation of accounts receivable, the fair value of future asset retirement obligations, depletion costs per unit of production, stock-based compensation expense, and the fair value of financial instruments, in measuring impairment losses and the recoverability of amounts shown for oil and gas properties, and in respect of the utilization of future income tax assets and tax rates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in operations in the period in which they become known.

Any amounts recorded for depletion of oil and gas properties and any provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proven reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty, and the effect on the financial statements of changes in such estimates in future periods could be material.

Oil and gas properties

The Company follows the full cost method of accounting for oil and gas operations and assets whereby all costs related to the acquisition of, exploration for, and development of oil and gas reserves in a single country are capitalized into a single cost centre. Under the full cost method, such capitalized costs include leasehold acquisition costs, geological and geophysical costs, lease rentals on non-producing properties, drilling, and amortization of support plant and equipment costs. Government incentives are credited to the cost of the oil and gas properties at the time the qualifying expenditures are incurred. Proceeds from the disposal of properties are applied as a reduction of the cost of the remaining assets with no gain or loss recognized, unless such a sale would result in a change of more than 20% in the depletion rate.

Costs of acquiring unproven properties are initially excluded from costs subject to depletion and depreciation and are assessed yearly to determine whether impairment has occurred. When proven reserves are subsequently assigned to a previously unproven property or the property is determined to be impaired, the cost of the property or the amount of the impairment is transferred to costs subject to depletion and depreciation. Impairment is considered to have occurred when the carrying value of an oil or gas property exceeds its fair value.

Depletion of oil and gas properties and depreciation of production equipment is calculated using the unit of production method based upon estimated proven reserves, before royalties, as determined by an independent engineer. For purposes of the calculation, natural gas reserves and production are converted to equivalent volumes of oil based upon relative energy content.

The Company applies a ceiling test to capitalized costs to ensure that such costs are recoverable and do not exceed their fair value. The carrying value is assessed to be recoverable when the carrying value is not greater than the sum of the undiscounted cash flows expected from the production of proven reserves using forecasted future prices plus the lower of the cost and the market value of unproven properties plus the cost of major development projects. When the carrying value is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value of assets exceeds the sum of the fair value of proven and probable reserves plus the cost, less any impairment, of unproven properties assigned no probable reserves. An impairment loss recognized on oil and gas properties is recorded in depletion and depreciation expense.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term investment

Long-term investment is classified as available for sale and carried at cost, as the investment does not have a quoted market value in an active market. If it is determined that there is a decline in value other than temporary, the investment is written-down to its estimated net realizable value.

Equipment

Equipment, consisting of computers, office equipment and vehicles, is recorded at cost less accumulated amortization and impairment charges. For computers and office equipment, amortization is provided on a straight-line basis over the expected useful lives of the assets of five years. For vehicles, amortization is provided on a per-kilometer basis over the expected useful life.

Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognizing and measuring an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

Impairment of oil and gas properties is recognized and measured in accordance with the Company's accounting policies related to oil and gas properties.

Future asset retirement obligations

The Company recognizes liabilities for statutory, contractual or legal obligations associated with the reclamation of oil and gas properties when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement cost is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the declining balance method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows needed to settle the obligation.

Revenue recognition

Revenue from the sale of oil and gas products is recognized upon the passage of title, when there is persuasive evidence of a contract or other arrangement, and when ultimate collection is reasonably assured.

Stock-based compensation

The Company has a plan for granting stock options to management, directors, employees and consultants as described in Note 10. The Company recognizes compensation expense under this plan using the fair value method in accordance with CICA Handbook section 3870 "Stock-Based Compensation and Other Stock-Based Payments". Under this method, the fair value of stock options granted to employees is recognized as stock-based compensation expense over the vesting period and credited to contributed surplus.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-based compensation (continued)

Stock options granted to non-employees are measured at their fair value on the vesting date. Prior to the vesting date, the then-current fair value of stock options granted to non-employees is recognized as stock-based compensation expense from the date of grant to the reporting date and credited to contributed surplus. Upon the exercise of stock options, consideration paid and the fair value amounts previously credited to contributed surplus are recorded as share capital. The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock options granted.

Future income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Loss per share

Basic loss per share is calculated using the weighted-average number of common shares outstanding during the year. Diluted loss per share is not presented separately from loss per share as the conversion of outstanding stock options and warrants into common shares would be anti-dilutive.

The Company uses the treasury stock method to compute the diluted earnings or loss per share, to reflect the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

Joint interests

Substantially all of the Company's exploration, development and production activities are conducted jointly with others, and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

Translation of foreign currencies

Transactions in foreign currencies are translated into Canadian dollars at the exchange rates in effect on the transaction date. Monetary assets and liabilities expressed in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. The resulting exchange gains and losses are recognized in income.

Presentation

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of new accounting policies

Effective April 1, 2008 the following pronouncements of the Canadian Institute of Chartered Accountants ("CICA") were adopted as accounting policies of the Company:

Assessing going concern - CICA Handbook Section 1400

The Accounting Standards Board (AcSB) amended Section 1400 to include requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern. The Company provides enhanced disclosures in accordance with Section 1400 in Notes 1 and 17 to these consolidated financial statements.

Capital disclosures – CICA Handbook Section 1535

This new pronouncement 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. The Company provides disclosures required pursuant to Section 1535 in Note 17 to these consolidated financial statements.

Financial instruments: disclosures and presentation – CICA Handbook Sections 3862 and 3863

These new Sections, 3862 (on disclosures) and 3863 (on presentation), replace Section 3861, revising and enhancing the disclosure requirements, and carrying forward unchanged its presentation requirements. Section 3862 complements the principles for recognizing, measuring and presenting financial assets and financial liabilities. Section 3863 deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and liabilities are offset.

Recent Canadian accounting developments

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

Goodwill and intangible assets, CICA Handbook Section 3064

Effective April 1, 2009, the Company is required to adopt 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Canadian accounting developments (continued)

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.

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 comprise the following:

	March 31, 2009	March 31, 2008
	\$	\$
Net revenue receivable from oil and gas property operators, net of allowance	59,669	96,794
Oil and gas property expenditures incurred on behalf of joint interest-holders	412	3,243
Recovery of goods and services tax	12,020	12,677
	<u>72,101</u>	<u>112,714</u>

GREAT PACIFIC INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009 AND 2008

4. AMOUNTS DUE FROM RELATED PARTIES

Amounts due from related parties consist of the following balances:

	March 31, 2009	March 31, 2008
	\$	\$
Advances due from a Director for future management fees and expenses (a)	59,591	-
Interest on related party advances (b)	2,166	-
Vehicle rental charged to a private company controlled by a Director (c)	61,425	-
Cost recovery billings charged to a private company controlled by a Director	-	1,708
	<u>123,182</u>	<u>1,708</u>

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

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

- (a) Advances due from a Director were made to the President of the Company. These advances are to be settled by the monthly offset of management fees and out-of-pocket costs paid by the President on behalf of the Company from time to time.
- (b) Advances made to related parties accrued interest at an effective annual rate of prime plus 1%.
- (c) A private company controlled by a Director rented vehicles owned by the Company for certain periods during the fiscal year ended March 31, 2009.

5. OIL AND GAS PROPERTIES

Amounts presented as oil and gas properties at March 31, 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.

Canadian oil and gas properties:

Details on the Canadian oil and gas properties held by the Company at March 31, 2009 are as follows:

Mistahiya-group properties

In the fiscal year ended March 31, 2007 the Company obtained its initial oil and gas assets (the "*Mistahiya-group properties*") by way of a block acquisition from Mistahiya Resources Ltd. ("Mistahiya"), an arms-length private corporation. The Company acquired net revenue interests ranging from 3.8% to 36%, subject to Crown royalties.

The Mistahiya-group properties were acquired for cash consideration of \$362,000, and the issuance of 500,000 common shares having a fair value of \$0.50 per share. The Company also assumed asset retirement obligations having an estimated fair value at March 31, 2009 of \$344,320.

5. OIL AND GAS PROPERTIES (Continued)

Canadian oil and gas properties (continued)

Mistahiya-group properties (continued)

The Mistahiya-group properties, including all the producing oil wells, are located in Alberta, Canada.

The Company started participating on a non-operated basis in oil and gas production from the Mistahiya properties on April 1, 2007. In the years ended March 31, 2009 and 2008, all production and sales attributed to the Canadian oil and gas cost centre was earned from the Mistahiya-group properties.

Oil production from the Mistahiya-group properties came from 7 oil wells in which the Company holds a 36% working interest. These wells are all located near Red Earth Village, Alberta.

Gas production from the Mistahiya-group properties came from 1 gas well (2008: 1 gas well), in which the Company holds a 3.8% working interest.

In the year ended March 31, 2008, the Company had a temporary enhanced interest in 2 of the Mistahiya-group producing oil wells. The Company obtained this temporary enhanced interest by funding the entire cost of a \$144,500 re-work program, pursuant to a non-participation "penalty provision" negotiated between the parties.

Under the terms of this penalty provision, as consideration for funding Mistahiya's share of the re-work expenditures, the Company received a temporary 100% revenue interest in the two re-worked wells until that time that the Company received aggregate net revenues from those two wells totaling 125% of the cost of the entire re-work program ("125% payout"). 125% payout occurred in March 2008, at which time the Company's participating interest reverted to 36%. At the time this penalty provision was negotiated, Mistahiya was a related party, having a common officer.

In the year-ended March 31, 2009, the Company incurred property carrying costs and exploration and development expenditures of \$2,015 on certain unproven Mistahiya-group properties (2008: \$29,556) and development expenditures of \$23,246 on proven and producing Mistahiya-group properties (2008: \$170,219).

Undeveloped Alberta lease interests

At March 31, 2009 the Company holds certain petroleum and natural gas ("P & NG") leases from the Crown throughout Alberta. These undeveloped, non-producing leases are exploration lands that are undrilled and have no reserves assigned. They are as follows:

- § 100% working interest in certain petroleum and natural gas leases ("P & NG leases") throughout Alberta, Canada
- § 65% interest in a P & NG lease near Red Earth, Alberta
- § 25% interest in a P & NG lease near Drumheller, Alberta. At the time of acquisition, a joint working interest holder on this property was related to the Company by way of a common officer.

The Company capitalized lease acquisition costs in respect of those properties of \$60,006 in the year ended March 31, 2009 (2008: \$44,661).

5. OIL AND GAS PROPERTIES (Continued)

Canadian oil and gas properties (continued)

3-20 project

In the year ended March 31, 2008, the Company acquired by cash purchase totalling approximately \$309,000 certain rights to a light oil prospect referred to as the "3-20 project". At the time of acquisition, the Company's interest in the 3-20 project consisted of a 37.5% interest in a re-entry target in the "3-20 wellbore", a 75% interest in certain adjacent P & NG lease rights, and a 75% interest in a seismic option to certain other adjacent P & NG leasehold tracts (the "Devon/Paramount seismic option lands").

As the Company elected not to drill an earn-in well on the seismic option lands, thereby forfeiting those option rights, at March 31, 2009 the Company's interest in the 3-20 project consists of a 37.5% interest in the 3-20 wellbore and spacing unit, and a 75% interest in the balance of the lease (Note 12). All option rights to the Devon/Paramount seismic option lands expired prior to March 31, 2009.

The Company has spent approximately \$269,000 to-date on exploration and development on the 3-20 project. These costs consist of approximately \$166,000 for perforation and production testing of a prospective zone through a re-entry of the 3-20 well-bore and related lease improvements and tangible equipping costs, and approximately \$103,000 of seismic survey on the adjacent Devon/Paramount seismic option lands.

United States oil and gas properties

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. This prospect area consists of certain leased and option-held petroleum interests held by the project operator in Scurry County, Texas, U.S.A.

GPI Petroleum acquired these participation rights by paying \$104,760 to the property operator. As partial consideration for these acquisition fees, the Company also obtained 3-D seismic data for the prospect block.

GPI Petroleum elected to participate, to its proportionate interest, in the drilling of a test well on that property in the year ended March 31, 2009. 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. The well did not encounter sufficient oil reserves to warrant completing, and was accordingly plugged and abandoned after reaching total depth.

The Company, by participating in the initial test well, retained its 13% participation rights to the remainder of the prospect area, and acquired a 13% working interest in the drilled lease. However, the Company's participation rights and lease interest are subject to the operator's right of non-judicial foreclosure, as the Company owes approximately \$47,000 (\$37,000 U.S. Dollars) against the costs of the initial test well at March 31, 2009 (Note 12).

The Company is in a state of un-notified default pursuant to its joint operating agreement in respect of this amount, and failure to repay this amount within twenty days of notification may result in loss of all remaining participation rights. This amount accrues interest at the prevailing Texas prime interest rate plus 1%.

5. OIL AND GAS PROPERTIES (Continued)

United States oil and gas properties (continued)

Logan County, Arkansas

In the fiscal year ended March 31, 2008, the Company acquired, for cash consideration of \$32,166, a non-operated minority working interest in a producing natural gas lease in Arkansas, U.S.A.

Oil and gas properties forfeited

During the fiscal years presented, the Company from time to time acquired certain oil and gas leasehold and option rights which were abandoned or forfeited prior to March 31, 2009. The Company holds no interests in these properties as at March 31, 2009, but conducted varying levels of pre-drill assessment and exploration on these properties in the years presented.

Haro East and RLE Red Earth farm-in properties

In the prior fiscal year ended March 31, 2008, the Company acquired options to earn 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 ending March 31, 2009.

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

In the year ended March 31, 2009 the Company decided not to proceed with drilling the earn-in wells. As a result of this election not to drill those three earn-in wells, the Company forfeited all earn-in rights to the Haro East and the RLE Red Earth farm-in lands and forfeited the drilling deposit.

The Company has no additional commitments in respect of those farm-in agreements. The Company will retain a 65% working interest in a petroleum and natural gas lease acquired adjacent to the RLE Red Earth farm-in lands pursuant to the "Area of Mutual Interest" clause of the farm-in agreements.

Prior to the forfeiture of these options, the Company incurred cumulative assessment and pre-drill costs of \$74,244 on the RLE Red Earth farm-in lands and \$138,091 on the Haro East lands.

Chinchaga farm-lands

In addition to the Haro East and RLE Red Earth farm-in, the Company also obtained certain drilling options to a petroleum and natural gas lease adjacent to the Haro East option lands (the "Chinchaga" lands). The drilling options to the Chinchaga lands were allowed to lapse in the year ended March 31, 2009, upon the Company's decision to forfeit the Haro East farm-in. No significant pre-drill costs were incurred in respect of the Chinchaga lands, and no obligations remain in respect of those options.

Manitoba

The Company acquired certain petroleum and natural gas leases in Manitoba, believed to be prospective for tight shale gas. These leases were purchased in the year ended March 31, 2008, and had expired by March 31, 2009. The Company is in the process of determining its reclamation obligations in respect of an abandoned well-bore on this property.

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5. OIL AND GAS PROPERTIES (Continued)

Oil and gas properties

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

	Canada \$	United States \$	Total \$
Balance, March 31, 2007	777,055	-	777,055
Acquisition of oil and gas property interests	353,440	32,166	385,606
Capitalized future asset retirement obligations (Note 8)	293,731	507	294,238
Exploration and development of oil and gas properties	591,584	-	591,584
Depletion and depreciation	(355,458)	(15,551)	(371,009)
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 8)	(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)
Balance, March 31, 2009	1,147,809	69,641	1,217,450

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

	2009 \$	2008 \$
<u>Canada</u>		
Oil and gas expenditures subject to depletion and depreciation	673,462	790,192
Oil and gas expenditures not subject to depletion and depreciation	474,347	870,160
	<u>1,147,809</u>	<u>1,660,352</u>
<u>United States</u>		
Oil and gas expenditures subject to depletion and depreciation	13,142	17,122
Oil and gas expenditures not subject to depletion and depreciation	56,499	-
	<u>69,641</u>	<u>17,122</u>
Oil and gas properties	<u>1,217,450</u>	<u>1,677,474</u>

GREAT PACIFIC INTERNATIONAL INC.
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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.

In the year ended March 31, 2009, an impairment charge of \$513,374 (2008: \$-nil) was recognized in the Canadian oil and gas cost centre, included in depletion. An impairment charge of \$269,322 was recognized in the United States cost centre, pertaining to the uneconomic test well on the Midland Basin prospect area (2008: \$-nil).

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.

6. LONG-TERM INVESTMENT

	2009	2008
	\$	\$
Carrying value, investment in common shares of OG International Inc.	1	29,517
Less: provision for impairment	(1)	(29,516)
Long-term investment	-	1

The Company's investment in OG International Inc. ("OG International") consists of 2,500,000 (2008: 2,500,000) common shares. There exists no active market for the exchange of the common shares of OG International from which a quoted market value of these common shares can be obtained. At the time the investment was made, the Company and OG International had a common officer and director. The Company completely wrote-off the balance of the carrying value in fiscal 2009, upon its assessment that the investee, OG International Inc., had substantially abandoned all operations.

GREAT PACIFIC INTERNATIONAL INC.
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7. EQUIPMENT

	March 31, 2009			March 31, 2008		
	Cost \$	Accumulated Amortization \$	Net Book Value \$	Cost \$	Accumulated Amortization \$	Net Book Value
Computers and office equipment	58,416	(47,469)	10,947	58,416	(43,103)	15,313
Vehicles	78,184	(31,269)	46,915	-	-	-
	<u>136,600</u>	<u>(78,738)</u>	<u>57,862</u>	<u>58,416</u>	<u>(43,103)</u>	<u>15,313</u>

Vehicles acquired in the current fiscal year consist of three four wheel drive trucks, and associated equipment.

Amortization expense recorded in the years presented consists of the following:

	March 31,	
	2009 \$	2008 \$
Amortization expense, computers and office equipment	4,366	7,095
Amortization expense and impairment allowance, vehicles	24,456	-
	<u>28,822</u>	<u>7,095</u>

In the year ended March 31, 2009, an additional \$6,813 of vehicle amortization was credited to "Vehicle rent revenue, net of operating costs and depreciation" (2008: \$-nil).

In the year ended March 31, 2009, the Company determined that the carrying value of its vehicles may not be fully recoverable, resulting in an impairment charge of \$17,643 which has been included in amortization and impairment of equipment expense. The fair value of vehicles at March 31, 2009 was determined by reference to market prices of comparable assets.

8. 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.

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	102,000
2011	70,000
2012	108,000
2015	55,000
2017	70,000
2018	58,000
Thereafter to 2025	311,000
	<u>774,000</u>

8. FUTURE ASSET RETIREMENT OBLIGATIONS (Continued)

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 March 31, 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%.

Long-term provision for future asset retirement obligations

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

	Year ended March 31,	
	2009	2008
	\$	\$
Opening balance	476,675	165,055
Accretion	37,185	17,382
Future asset retirement obligations capitalized	-	36,691
Change in estimated future cash flows	(99,152)	257,547
	<u>414,708</u>	<u>476,675</u>
Less: current portion	(93,247)	-
Balance, end of year	<u>321,461</u>	<u>476,675</u>

Current provision for future asset retirement obligations

The Company has recorded a current provision for the fair value of asset retirement obligations which it expects to settle in the fiscal year ended March 31, 2010. The provision relates to the estimated costs of retiring four suspended well-bores, on properties which either have a lease expiring prior to March 31, 2010, or in respect of which the operator has notified the Company of its intention to commence abandonment in the near-term.

Of the properties scheduled as requiring abandonment in the next fiscal year, two may have potential for recommencing economic operations, subject to successful development of untested geological formations (in one instance), or successful implementation of well enhancement or a salt-water disposal scheme (in the other instance). Should the Company successfully carry out those development programs and achieve economic operations on either property, the statutory asset retirement obligation for the successfully recommenced properties will be deferred until the time that economic production ceases.

9. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions and balances entered into during the years ended March 31, 2009 and 2008 and not disclosed elsewhere in these financial statements are as follows:

- (a) In the year ended March 31, 2009 the Company paid or accrued management fees to three officers totalling \$150,000 (2008: \$139,250).
- (b) The Company paid or accrued professional and consulting fees to related parties (or to private companies controlled by related parties, or parties affiliated with related parties) in the years ended March 31, 2009 and 2008 as follows:

	2009	2008
	\$	\$
Private companies controlled by directors, officers or persons related to them	45,435	15,335
Directors, officers, or persons related to them	6,000	28,750
	<u>51,435</u>	<u>44,085</u>

Of these professional and consulting fees, \$28,042 were capitalized as oil and gas property expenditures in the fiscal year ended March 31, 2009 (2008: \$12,255).

- (c) Amounts due to related parties consists of amounts owing to officers, directors (or to persons related to them or companies controlled by them) for services as noted in a) and b), above, and for expense reimbursements.
- (d) The Company paid finders' fees of \$75,000 (2008: \$-nil) to a person related to a director of the Company in connection with a private placement financing conducted in the year ended March 31, 2009. Of the amount paid, \$25,320 was accrued in a prior period.

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

10. 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: 22,411,433 common shares (2008: 20,243,433 common shares)
Nil preferred shares (2008: Nil preferred shares)

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10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Continued)

Share capital (continued)

A summary of common shares issued in the years ended March 31, 2009 and 2008 is as follows:

	2009		2008	
	Number of Shares #	Amount \$	Number of Shares #	Amount \$
Balance, beginning of year	20,243,433	8,145,853	16,291,933	6,953,219
Issued in the year for cash				
Private placement	2,000,000	1,500,000	500,000	250,000
Private placement finders' fees	-	(80,801)	-	-
Exercise of warrants	48,000	48,000	3,162,500	760,440
Exercise of options	120,000	52,000	289,000	101,150
	<u>22,411,433</u>	<u>9,665,052</u>	<u>20,243,433</u>	<u>8,064,809</u>
Reclassified from contributed surplus on exercise of stock options	-	41,456	-	81,044
Balance, end of year	<u>22,411,433</u>	<u>9,706,508</u>	<u>20,243,433</u>	<u>8,145,853</u>

Private placements

In the year ended March 31, 2009, the Company issued 2,000,000 private placement units at \$0.75 per unit (the "2009 private placement"). Each private placement unit consisted of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional common share of the Company at \$1.00 per share until April 14, 2010.

Private placement units issued in the year ended March 31, 2008 were issued pursuant to a share subscription received in the prior year (the "2007 private placement"). Under the 2007 private placement, each private placement unit comprised one common share and one share purchase warrant, with each share purchase warrant entitling the holder to purchase one additional common share of the Company at a price of \$0.60 per share. 2007 private placement units were issued for \$0.50 per unit.

Escrow agreement

At March 31, 2009 1,003,095 (March 31, 2008: 1,671,825) issued common shares of the Company were held subject to an escrow agreement (the "2007 escrow agreement"). Common shares held subject to the 2007 escrow agreement will be released from escrow as follows:

April 2009	334,365
October, 2009	334,365
April, 2010	334,365
	<u>1,003,095</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Continued)

Contributed surplus

The amounts classified as contributed surplus are as follows:

	2009 \$	2008 \$
Balance, beginning of year	307,316	380,501
Stock-based compensation on stock options granted	189,217	7,859
Less: reclassification on exercise of employee stock options previously granted	(41,456)	(81,044)
Balance, end of year	455,077	307,316

Warrants

A summary of share purchase warrants issued and exercised in the years ended March 31, 2009 and 2008 is as follows:

	2009		2008	
	Number of warrants	Weighted Average Exercise Price per warrant \$	Number of warrants	Weighted Average Exercise Price per warrant \$
Balance, beginning of year	1,996,000	0.60	4,658,500	0.36
Granted	2,000,000	1.00	500,000	0.60
Exercised	(48,000)	1.00	(3,162,500)	(0.24)
Expired	(1,996,000)	0.60	-	-
Warrants outstanding, end of year	1,952,000	1.00	1,996,000	0.60
Warrants exercisable, end of year	1,952,000	1.00	1,996,000	0.60

A summary of warrants outstanding is as follows:

Exercise Price	Expiry	Outstanding at March 31,	
		2009	2008
\$0.60	March 9, 2009	-	1,996,000
\$1.00	April 14, 2010	1,952,000	-
		1,952,000	1,996,000

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10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Continued)

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-relation 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.

A summary of share purchase options cancelled, issued and exercised in the years ended March 31, 2009 and 2008 is as follows:

	2009 Number of options	Weighted average exercise price \$	2008 Number of options	Weighted average exercise price \$
Balance, beginning of year	1,816,000	1.02	1,205,000	0.37
Cancelled	(135,000)	0.66	-	-
Granted	390,000	1.50	900,000	1.67
Exercised	(120,000)	0.43	(289,000)	0.35
Balance, end of year	1,951,000	1.04	1,816,000	1.02
Options exercisable, end of year	908,000	0.67	916,000	0.37

A summary of stock options outstanding is as follows:

Exercise price (\$)	Expiry Date	Options outstanding at March 31,	
		2009	2008
1.38	February 18, 2013	865,000	900,000
0.35	May 21, 2009	215,000	235,000
0.35	October 3, 2010	481,000	481,000
1.50	April 14, 2013	390,000	-
0.45	September 8, 2011	-	200,000
Options outstanding, end of year		1,951,000	1,816,000
Unvested stock options not subject to exercise		(1,043,000)	(900,000)
Options exercisable, end of year		908,000	916,000

Stock options granted in the year ended March 31, 2009 vest as to 10% every six months, commencing October 14, 2008. The exercise price is \$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 2009 options granted and vested was \$1.50 per share at March 31, 2009.

Stock options granted in the year ended March 31, 2008 vest as to 10% every six months, commencing August 18, 2008. The exercise price is \$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 granted and vested was \$1.38 per share at March 31, 2009.

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10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Continued)

Stock options (continued)

The total stock-based compensation recognized for stock options granted to employees, under the fair value method using the Black-Scholes option pricing model, was \$238,991 (2008: \$611,710). The Company expensed \$173,778 (2008: \$4,566) leaving an unamortized balance of \$672,357 to be recognized over the following five years (2008: \$479,173). 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 year-ended March 31, 2009 was \$15,439 (2008: \$3,293).

The weighted average fair value of each option granted was \$0.82 (2008: \$0.31), computed using the Black-Scholes option pricing model using the following weighted average assumptions:

	2009	2008
Risk-free interest rate	3.2%	3.2%
Expected life of options	5.00 years	5.00 years
Annualized volatility	62%	69%
Dividend rate	0.00%	0.00%

Share subscriptions received in advance

In the year ended March 31, 2008 the Company received subscriptions of \$845,700 for the purchase of 1,127,600 equity units of the Company pursuant to the 2009 private placement completed in the year ended March 31, 2009. Additionally, share issuance costs of \$31,102 were accrued in respect of these share subscriptions.

11. INCOME TAXES

A reconciliation of income taxes (recovery) using a statutory rate of 29.5% (2008: 29.5%) with the reported taxes (recovery) is as follows:

	2009	2008
	\$	\$
Loss for the year	<u>(1,985,566)</u>	<u>(867,784)</u>
Expected income tax recovery at statutory rates	(585,742)	(255,996)
Amortization	10,512	2,093
Depletion and accretion	303,635	114,575
Non-deductible expenses	2,950	2,469
Stock-based compensation	55,819	2,318
Loss on impairment, long term investment	-	8,707
Unrecognized benefits of non-capital losses	<u>212,826</u>	<u>125,834</u>
Total income tax recovery	<u>-</u>	<u>-</u>

GREAT PACIFIC INTERNATIONAL INC.
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11. INCOME TAXES (Continued)

The significant components of the Company's future income tax assets are as follows:

	2009 \$	2008 \$
Future income tax assets attributable to:		
Property and equipment	19,086	28,854
Reserves	103,677	-
Oil and gas properties	257,806	(23,837)
Non-capital losses available for future periods	1,004,677	1,440,277
	<u>1,385,246</u>	<u>1,445,294</u>
Less: valuation allowance	<u>(1,385,246)</u>	<u>(1,445,294)</u>
Total future income tax assets	<u>-</u>	<u>-</u>

The Company has non-capital losses for Canadian income tax purposes of approximately \$4,018,710 at March 31, 2009 (2008: \$5,346,000), which can be carried forward to reduce taxable income in future years. Unless utilized, these losses will expire through 2029. Future tax benefits, which may arise as a result of these losses have not been recognized in these financial statements as management does not consider their realization to be more likely than not.

12. COMMITMENTS AND CONTINGENCY

Significant commitments at March 31, 2009 are as follows:

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 and the other co-venturers. At March 31, 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 \$47,000 (Note 5).

Workovers on producing wells

In March, 2009, two of the Company's producing oil properties near Red Earth, Alberta, went off production due to well 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'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 \$19,000 per year.

12. COMMITMENTS AND CONTINGENCY (Continued)

Property participation, Alberta

In order to maintain its interest in its minority working interests in oil and gas properties, the Company must participate in duly conducted exploration and development conducted on those properties by its co-venturers on those properties. 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.

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 (Note 5).

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 is vigorously defending itself against these allegations. No amounts related to the counter-claim have been accrued at March 31, 2009.

13. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2009 \$	2008 \$
Increase (decrease) in accounts receivable	18,763	(103,694)
Increase (decrease) in prepaid expenses	1,426	(12,945)
Increase in accounts payable and accrued liabilities	99,988	78,617
Changes in non-cash working capital items	120,177	(38,022)

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13. SUPPLEMENTAL CASH FLOW INFORMATION (Continued)

	2009 \$	2008 \$
Cash paid for:		
Interest	-	-
Income taxes	-	-
Non-cash investing and financing activities:		
Change in estimated future asset retirement obligations	(99,152)	257,547
Forfeited drilling deposit transferred to oil and gas properties	100,000	-

14. SEGMENTED INFORMATION

In the years ended March 31, 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).

Oil and gas revenues and costs are presented for each cost centre as follows:

Year ended March 31, 2009:

	Canada \$	U.S.A. \$	Total \$
Oil and gas revenue, net of royalties	287,748	11,850	299,598
Oil and gas operating costs	(117,144)	(934)	(118,078)
Depletion and accretion	(756,418)	(273,302)	(1,029,720)
	<u>(585,814)</u>	<u>(262,386)</u>	<u>(848,200)</u>

Year ended March 31, 2008:

	Canada \$	U.S.A. \$	Total \$
Oil and gas revenue, net of royalties	507,228	10,185	517,413
Oil and gas operating costs	(175,311)	(606)	(175,917)
Depletion and accretion	(372,840)	(15,551)	(388,391)
	<u>(40,923)</u>	<u>(5,972)</u>	<u>(46,895)</u>

Discontinued operations

Prior to commencing its development stage oil and gas operations in the year ended March 31, 2007, the Company was involved in a "loyalty points program" business model. This business model was discontinued in the fiscal year ended March 31, 2007, and was held for sale at March 31, 2007. This discontinued business model was sold in the year ended March 31, 2008. Upon discontinuation of the loyalty points program business in the year ended March 31, 2007, the Company has only operated in the oil and gas business segment.

15. SUBSEQUENT EVENTS

Significant subsequent events not disclosed elsewhere are as follows:

Petroleum investment qualification application, Republic of Iraq

In the year ended March 31, 2009, the Company applied for pre-qualification as an approved petroleum-sector operator with the Ministry of Oil, Republic of Iraq. Concurrent with this application, the Company also undertook preliminary petroleum investment opportunity evaluation. Costs related to this pre-qualification application and evaluation totalled \$95,966 (2008: \$-nil) and are recorded to "Property and investment evaluation expense".

The Company's pre-qualification application was pending and under review by the Ministry of Oil at March 31, 2009. The Company subsequently determined that it was not pre-qualified as a petroleum sector contractor in Iraq.

3-20 project

As a result of the default by a third-party co-venturer in the 3-20 wellbore, the Company's interest in the 3-20 wellbore increased to 60% subsequent to March 31, 2009. As a result of this default, the Company had to reimburse the operator its proportionate share of the defaulted amount, being \$8,500. The Company's interest in the 3-20 project remains in good standing.

16. 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
- § Long term investment as "available for sale securities" measured at fair value
- § 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 and accrued liabilities 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.

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 March 31, 2009 is \$229,460, which consists of the face value of cash, accounts receivable and amounts due from related parties.

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.

16. FINANCIAL INSTRUMENTS AND RISK (Continued)

Financial instrument risk (continued)

Accounts receivable

The Company is exposed to on-going concentration of credit risk because its Canadian oil and gas assets, representing approximately 96% 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 March 31, 2009, amounts owing from that party comprised 71% of accounts receivable (2008: 77%).

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 March 31, 2009 related party advances consist of interest-bearing expense advances and vehicle rental revenue receivable (Note 4). These amounts are due on demand, and have no fixed terms. The interest bearing advances accrue interest at a rate of prime plus 1%.

The expense advance to a director is expected to be settled in the next four months against management fees accruing to the President and by the application of out-of-pocket expenses incurred by that person on the Company's behalf from time to time.

The amounts due from related parties at March 31, 2009 are due from two parties, and default by either party would constitute a material loss.

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 \$47,000) 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 4% 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 approximately \$69,641. 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 a result of the depreciation of the Canadian dollar over the year ended March 31, 2009 the Company suffered a significant increase in the Canadian-dollar cost of funding its obligations on the Midland Basin test well.

As at March 31, 2009, the Company does not believe its overall exposure to currency risk for its obligations denominated in United States dollars is significant.

16. FINANCIAL INSTRUMENTS AND RISK (Continued)

Financial instrument risk (continued)

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 \$175,000 in accounts payable which are overdue at March 31, 2009 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).

17. 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 March 31, 2009 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'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.

17. CAPITAL MANAGEMENT (Continued)

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, the Company had no debt securities outstanding at March 31, 2009 (2008: \$-nil).

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 \$1,080,000 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.