CROWN POINT ENERGY INC.
(previously Crown Point Ventures Ltd.)
Condensed Interim Consolidated Financial Statements

For the Three and Nine Months Ended May 31, 2012
(Unaudited)

CROWN POINT ENERGY INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Unaudited
(Canadian dollars)

		May 31 2012		August 31 2011
				(Note 16)
Assets				
Current assets:				
Cash and cash equivalents	$	27,440,158	$	27,230,325
Trade and other receivables		4,302,734		1,077,426
Inventory		351,031		–
Prepaid expenses		1,201,406		614,147
		33,295,329		28,921,898
Exploration and evaluation assets (Note 5)		7,000,533		6,003,404
Property and equipment (Note 6)		55,189,987		16,486,633
Other non-current assets (Note 7)		593,892		–
	$	96,079,741	$	51,411,935
Liabilities and Shareholders' Equity				
Current liabilities:				
Trade and other payables	$	6,885,429	$	4,516,471
Decommissioning provision (Note 8)		3,308,782		565,291
		10,194,211		5,081,762
Shareholders' equity:				
Share capital (Note 9)		107,423,513		67,132,442
Contributed surplus		4,345,081		2,463,973
Accumulated other comprehensive loss		(1,767,312)		(2,412,149)
Deficit		(24,115,752)		(20,854,093)
		85,885,530		46,330,173
	$	96,079,741	$	51,411,935

Commitments (Note 14)

See notes to condensed interim consolidated financial statements

CROWN POINT ENERGY INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
Unaudited
(Canadian dollars)

	For the three months ended May 31		For the nine months ended May 31	
	2012	2011	2012	2011
		(Note 16)		(Note 16)
Revenue				
Oil and gas	$ 1,937,752	$ 345,490	$ 5,858,338	$ 2,362,594
Royalties	(480,204)	(76,193)	(1,397,438)	(532,898)
	1,457,548	269,297	4,460,900	1,829,696
Interest	96,575	71,843	249,923	71,843
	1,554,123	341,140	4,710,823	1,901,539
Expenses				
Operating	563,306	108,998	1,348,828	620,020
General and administrative	705,912	522,479	2,499,806	1,261,044
Acquisition costs (Notes 3 and 4)	1,007,155	–	1,007,155	23,001
Share-based payments	537,602	802,959	1,260,948	1,143,044
Financing fees and bank charges	39,987	47,980	135,065	136,116
Depletion and depreciation	615,421	97,282	1,649,145	547,278
Finance costs	20,409	11,704	55,500	24,768
Foreign exchange loss (gain)	27,379	(7,090)	16,035	(100,187)
Gain on sale of property and equipment	–	–	–	(244,558)
	3,517,171	1,584,312	7,972,482	3,410,526
Loss from continuing operations before income taxes	(1,963,048)	(1,243,172)	(3,261,659)	(1,508,987)
Deferred income tax reduction	–	–	–	41,000
Loss from continuing operations	(1,963,048)	(1,243,172)	(3,261,659)	(1,467,987)
Income from discontinued operations	–	816	–	18,923
Net loss for the period	(1,963,048)	(1,242,356)	(3,261,659)	(1,449,064)
Exchange differences on translation of foreign operations	534,601	(670,896)	644,837	(2,262,061)
Comprehensive loss for the period	$ (1,428,447)	$ (1,913,252)	$ (2,616,822)	$ (3,711,125)
Loss from continuing operations per share (Note 9):				
Basic and diluted	$ (0.03)	$ (0.03)	$ (0.05)	$ (0.04)
Net loss per share (Note 10):				
Basic and diluted	$ (0.03)	$ (0.03)	$ (0.05)	$ (0.04)

See notes to condensed interim consolidated financial statements

CROWN POINT ENERGY INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Unaudited
(Canadian dollars)

	Share Capital			Accumulated Other		
	Number	Amount	Contributed Surplus	Comprehensive Loss	Deficit	Total Equity
Balance as of September 1, 2010	30,353,129	$ 28,093,271	$ 1,229,144	$ –	$(18,028,606)	$11,293,809
Private placements (Note 9)	21,992,917	39,342,139	–	–	–	39,342,139
Acquisition of CanAmericas	258,065	477,420	–	–	–	477,420
Exercise of warrants	1,444,485	1,550,015	–	–	–	1,550,015
Exercise of finders' options	203,311	152,484	–	–	–	152,484
Exercise of stock options	370,000	189,350	–	–		189,350
Transfer on exercise of options	–	243,529	(243,529)	–	–	–
Share issue costs (Note 9)	–	(2,981,962)	–	–		(2,981,962)
Share-based payments	–	–	1,143,044	–	–	1,143,044
Other comprehensive loss for the period	–	–	–	(2,262,061)	–	(2,262,061)
Net loss for the period	–	–	–	–	(1,449,064)	(1,449,064)
Balance as of May 31, 2011	54,621,907	$ 67,066,246	$ 2,128,659	$ (2,262,061)	$(19,477,670)	$47,455,174
Exercise of warrants	53,000	71,250	–	–	–	71,250
Share issue costs	–	(5,054)	–	–	–	(5,054)
Share-based payments	–	–	335,314	–	–	335,314
Other comprehensive loss for the period	–	–	–	(150,088)	–	(150,088)
Net loss for the period	–	–	–	–	(1,376,423)	(1,376,423)
Balance as of August 31, 2011	54,674,907	$ 67,132,442	$ 2,463,973	$ (2,412,149)	$(20,854,093)	$46,330,173

See notes to condensed interim consolidated financial statements

CROWN POINT ENERGY INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Unaudited
(Canadian dollars)

	Share Capital		Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance as of August 31, 2011	54,674,907	$ 67,132,442	$ 2,463,973	$ (2,412,149)	$(20,854,093)	$46,330,173
Acquisition of Antrim Argentina (Note 3)	35,761,290	28,609,032	–	–	–	28,609,032
Private placement (Note 9)	13,774,900	13,086,155	–	–	–	13,086,155
Exercise of warrants (Note 9)	303,729	303,828	–	–	–	303,828
Exercise of finders' options (Note 9)	396	297	–	–	–	297
Transfer on exercise of options (Note 9)	–	234	(234)	–	–	–
Share issue costs (Note 9)	–	(1,215,041)	–	–	–	(1,215,041)
Expiry of warrants (Note 9)	–	(493,434)	493,434	–	–	–
Share-based payments (Note 9)	–	–	1,387,908	–	–	1,387,908
Other comprehensive income for the period	–	–	–	644,837	–	644,837
Net loss for the period	–	–	–	–	(3,261,659)	(3,261,659)
Balance as of May 31, 2012	104,515,222	$107,423,513	$ 4,345,081	$ (1,767,312)	$(24,115,752)	$85,885,530

See notes to condensed interim consolidated financial statements

CROWN POINT ENERGY INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited
(Canadian dollars)

	For the three months ended May 31		For the nine months ended May 31	
	2012	2011	2012	2011
Cash provided by (used in):		(Note 16)		(Note 16)
Operating:				
Loss from continuing operations	$ (1,963,048)	$ (1,243,172)	$ (3,261,659)	$ (1,467,987)
Items not affecting cash:				
Depletion and depreciation	615,421	97,282	1,649,145	547,278
Finance costs	20,409	11,704	55,500	24,768
Share-based payments	537,602	802,959	1,260,948	1,143,044
Unrealized foreign exchange	(364,949)	–	(946,510)	–
Gain on sale of property and equipment	–	–	–	(244,558)
	(1,154,565)	(331,227)	(1,242,576)	2,545
Changes in non-cash working capital (Note 11)	732,401	471,347	658,934	(147,488)
Cash (used in) from operating activities - continuing operations	(422,164)	140,120	(583,642)	(144,943)
Discontinued operations:				
Income from discontinued operations	–	816	–	18,923
Items not affecting cash:				
Depreciation	–	3,005	–	21,654
Finance costs	–	900	–	2,700
Cash from discontinued operations	–	4,721	–	43,277
Investing:				
Property and equipment expenditures	(6,029,760)	(366,684)	(8,172,252)	(2,618,681)
Property and equipment proceeds	–	–	–	280,000
Exploration and evaluation asset expenditures	(526,389)	(2,148,850)	(598,056)	(2,510,604)
Acquisition, net of cash acquired (Notes 3 and 4)	(2,815,087)	–	(2,815,087)	(40,446)
Change in other non-current assets	(69,580)	–	(69,580)	–
Changes in non-cash working capital (Note 11)	3,583,195	65,779	(22,931)	(2,311,087)
Cash used in investing activities	(5,857,621)	(2,449,755)	(11,677,906)	(7,200,818)
Financing:				
Share issuance proceeds, net of costs	124,686	24,002,917	12,175,239	38,252,026
Cash from financing activities	124,686	24,002,917	12,175,239	38,252,026
Change in cash and cash equivalents	(6,155,099)	21,698,003	(86,309)	30,949,542
Foreign exchange effect on cash	264,648	15,288	296,142	12,547
Cash and cash equivalents, beginning of period	33,330,609	11,018,299	27,230,325	1,769,501
Cash and cash equivalents, end of period	$ 27,440,158	$ 32,731,590	$ 27,440,158	$ 32,731,590

See notes to condensed interim consolidated financial statements

1. REPORTING ENTITY:

Crown Point Energy Inc. ("Crown Point" or the "Company"), previously Crown Point Ventures Ltd., is incorporated under the laws of British Columbia. Crown Point is based in Calgary, Alberta and is involved in the exploration for, and development and production of petroleum and natural gas in Argentina.

On July 27, 2012, the Company's shareholders approved the continuance of the Company from British Columbia to Alberta, and in connection with the same, the name change of the Company to "Crown Point Energy Inc.".

2. BASIS OF PRESENTATION:

(a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS").

These interim condensed consolidated financial statements are for part of the period covered by the first IFRS annual financial statements of the Company and do not include all of the information required for full annual financial statements. These interim condensed consolidated financial statements have been prepared following the same accounting policies and methods of computation as the interim condensed consolidation financial statements as at November 30, 2011. The significant accounting policies are described in Note 2 of the November 30, 2011 interim condensed consolidated financial statements with the exception of the following policy for inventory:

Inventory

Inventory is stated at the lower of cost and net realizable value. Cost of producing crude oil is accounted on a weighted average basis. This cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of crude oil is the purchase cost, including the appropriate proportion of depletion and depreciation and overheads. Net realizable value of crude oil and refined products is based on estimated selling price in the ordinary course of business less any expected selling costs.

Previously, the Company's interim consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). An explanation of how the transition to IFRS has affected the comparative periods is provided in Note 16.

These condensed interim consolidated financial statements were approved by the Board of Directors on July 27, 2012.

(b) Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Crown Point Oil & Gas S.A., CanAmericas (Argentina) Energy Ltd. and Antrim Argentina S.A. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date of such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Intercompany transactions and balances are eliminated on consolidation.

(c) Basis of measurement

The financial statements have been prepared in accordance with IFRS on a historical cost basis except for financial instruments which are measured at fair value.

2. BASIS OF PREPARATION (CONTINUED):

(d) Functional and presentation currency

The presentation currency of the Company is the Canadian dollar.

The functional currency of each of the parent company and its subsidiaries is measured using the currency of the primary economic environment in which that entity operates. The functional currency of Crown Point Oil & Gas S.A., CanAmericas (Argentina) Energy Ltd. and Antrim Argentina S.A. is the Argentina Peso, and for the Company, the functional currency is Canadian dollars.

(e) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Following are the accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position:

Business combinations

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as cash paid and the fair value of other assets given, common shares and other equity instruments issued and liabilities incurred or assumed at the date of exchange. The acquired identifiable assets and liabilities assumed, including contingent liabilities, are measured at their recognized amount (mostly fair value) at the date of acquisition. Any excess of the cost of the acquisition over the fair value of the net identifiable assets acquired is recognized as goodwill. Any deficiency of the cost of the acquisition below the fair value of the net identifiable assets acquired is recognized in earnings in the period of acquisition. Associated transaction costs are expensed when incurred.

Reserves

The estimate of petroleum and natural gas reserves is integral to the calculation of the amount of depletion charged to the statement of operations and is also a key determinant in assessing whether the carrying value of any of the Company's development and production assets has been impaired. Changes in reported reserves can impact asset carrying values and the decommissioning provision due to changes in expected future cash flows.

The Company's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgment and interpretation.

2. BASIS OF PREPARATION (CONTINUED):

(d) Use of estimates and judgments (continued)

Carrying value of development and production and exploration and evaluation assets

The Company assesses at each reporting date whether there is an indication that an asset or cash generating unit ("CGU") may be impaired. A CGU is defined as the lowest grouping of assets that generate identifiable cash inflows that are largely independent of cash inflows of other assets or groups of assets. The allocation of assets into CGU's requires significant judgment and interpretations with respect to the way in which management monitors operations.

If any indication exists that an asset or CGU may be impaired, the Company estimates the recoverable amount. The recoverable amounts of individual assets and cash-generating units have been determined based on the higher of value-in-use calculations and fair value less costs to sell.

These calculations require the use of estimates and assumptions, such as estimates of proved plus probable reserves, future production rates, oil and natural gas prices, future costs and other relevant assumptions, all of which are subject to change. A material adjustment to the carrying value of the Company's development and production and exploration and evaluation assets may be required as a result of changes to these estimates and assumptions.

Decommissioning provisions

Amounts recorded for decommissioning obligations require the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures and future inflation rates. The estimates are based on internal and third party information and calculations and are subject to change over time and may have a material impact on profit and loss or financial position. For more information on the Company's decommissioning provisions, see Note 8.

Share-based payments

The Company measures the cost of its share-based payments using a Black-Scholes pricing model. Measurement inputs include: the share price on the measurement date, expected lives of options, expected forfeiture rates, risk-free rates of return and expected stock price volatility. Changes to assumptions may have a material impact on the amounts presented. For more information on the Company's share-based payments, see Note 9.

3. ACQUISITION OF ANTRIM ARGENTINA S.A.:

On May 28, 2012, the Company acquired all of the issued and outstanding shares of Antrim Argentina S.A. ("Antrim Argentina") pursuant to a Plan of Arrangement under the Business Corporations Act (Alberta). Consideration for the acquisition was $9,246,784 of cash and 35,761,290 voting common shares of the Company at $0.80 per share based on the market price of the Company's common shares on the date of acquisition.

The acquisition will increase the Company's presence in Argentina including ownership of oil and gas focused concessions and related production volumes. The acquisition has been accounted for as a business combination.

(Canadian dollars)

3. ACQUISITION OF ANTRIM ARGENTINA S.A. (CONTINUED):

The preliminary fair values of the identifiable assets acquired and liabilities assumed by the Company are as follows:

Consideration:		
Cash	$	9,246,784
Issue of 35,761,290 common shares		28,609,032
	$	37,855,816
Property and equipment	$	29,975,731
Exploration and evaluation assets		1,000,000
Other non-current assets		524,312
Working capital (including cash of $6,431,697)		8,862,340
Decommissioning provision		(2,506,567)
	$	37,855,816

The above preliminary recognized amounts of identifiable assets acquired and liabilities assumed has been determined from information that is available to the management of the Company at this time and incorporates estimates. The acquisition accounting will be finalized after all actual results have been obtained and the final fair values of the assets and liabilities have been determined.

The Company incurred $1,007,155 of transaction costs in conjunction with the acquisition which have been expensed as incurred.

For the period May 28, 2012 to May 31, 2012, Antrim Argentina contributed nominal revenue and net loss to the Company's consolidated statement of loss and comprehensive loss. Had the transaction closed on September 1, 2011, the estimated incremental revenue and net earnings that would have been reported by the Company are $9.9 million and $1.8 million, respectively.

4. ACQUISITION OF CANAMERICAS (ARGENTINA) ENERGY LIMITED:

On January 12, 2011, the Company completed the acquisition of CanAmericas (Argentina) Energy Limited ("CanAmericas"). The acquisition resulted in the Company issuing 258,065 common shares at $1.85 per share based on the market price of the Company's common shares on the date of acquisition and $50,000 in cash for 100% of the outstanding common shares of CanAmericas. The acquisition has been accounted for as business combination whereby all the assets acquired and liabilities assumed are recorded at fair value.

The Company purchased CanAmericas in order to gain access to a 100% exploitation concession at Cañadon Ramirez, and increase its interest at Laguna De Piedra to 50% from 25%. The acquisition provided access to high quality 3D seismic in Cañadon Ramirez. The acquisition fits into the Company's corporate strategy of acquiring low to medium risk acquisitions in Argentina. Since acquisition, there was no significant impact on the statement of operations due to the acquisition, nor would there have been any significant change to net loss had CanAmericas been purchased on September 1, 2010. Transaction costs of $23,001 were expensed in the May 31, 2011 condensed interim consolidated statement of loss.

(Canadian dollars)

4. ACQUISITION OF CANAMERICAS (ARGENTINA) ENERGY LIMITED (CONTINUED):

The following table summarizes the allocation of the purchase price to the estimated fair value of the net assets acquired at the date of acquisition.

Consideration:		
Issue of 258,065 common shares	$	477,420
Cash		50,000
Total consideration	$	527,420
Allocated to:		
Net working capital deficiency (including cash of $9,554)	$	(351,500)
Property and equipment		909,957
Decommissioning provision		(31,037)
Net assets acquired	$	527,420

5. EXPLORATION AND EVALUATION ASSETS (''E&E''):

		Nine months ended May 31, 2012		Year ended August 31, 2011
Carrying amount, beginning of period	$	6,003,404	$	4,218,303
Additions		598,056		2,528,792
Transferred to property and equipment		(854,928)		–
Acquired (Note 3)		1,000,000		–
Decommissioning changes		25,555		–
Effect in movement in exchange rates		228,446		(743,691)
Carrying amount, end of period	$	7,000,533	$	6,003,404

E&E assets consist of the Company's intangible exploration projects in Argentina which are pending the determination of proven or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period. E&E assets are not depreciated or depleted.

The amounts capitalized as Argentina E&E assets at May 31, 2012 include $945,529 of VAT (August 31, 2011 – $804,146).

(Canadian dollars)

6. PROPERTY AND EQUIPMENT:

	Argentina		Canada	
	Development and Production Assets	Other Assets	Other Assets	Total
	$	$	$	$
Cost:				
Balance at September 1, 2010	7,324,436	33,646	172,718	7,530,800
Additions	10,315,029	31,111	15,844	10,361,984
Acquired (Note 4)	909,957	–	–	909,957
Disposals	–	–	(109,666)	(109,666)
Effect of movement in exchange rates	(1,364,171)	(5,684)	–	(1,369,855)
Balance at August 31, 2011	17,185,251	59,073	78,896	17,323,220
Additions	8,132,113	103,125	63,974	8,299,212
Transferred from E&E assets	854,928	–	–	854,928
Acquired (Note 3)	29,889,938	85,793		29,975,731
Decommissioning changes	133,518	–	–	133,518
Effect of movement in exchange rates	1,107,223	5,501	–	1,112,724
Balance at May 31, 2012	57,302,971	253,492	142,870	57,699,333
Accumulated depletion and depreciation:				
Balance at September 1, 2010	–	7,772	18,999	26,771
Depletion and depreciation	1,157,237	8,958	39,877	1,206,072
Disposals	–	–	(29,115)	(29,115)
Effect of movement in exchange rates	(365,828)	(1,313)	–	(367,141)
Balance at August 31, 2011	791,409	15,417	29,761	836,587
Depletion and depreciation	1,589,535	17,637	41,973	1,649,145
Effect of movement in exchange rates	23,136	478	–	23,614
Balance at May 31, 2012	2,404,080	33,532	71,734	2,509,346
Net carrying amount:				
At September 1, 2010	7,324,436	25,874	153,719	7,504,029
At August 31, 2011	16,393,842	43,656	49,135	16,486,633
At May 31, 2012	54,898,891	219,960	71,136	55,189,987

The amounts capitalized as D&P assets in Argentina at May 31, 2012 include $384,380 of capitalized general and administrative expenses, $126,960 of capitalized share-based payments and $4,007,616 of Value Added Tax (“VAT”) (August 31, 2011 – VAT $2,758,213). VAT is payable on goods and services supplied to the Company and is not recoverable from the Government of Argentina, however the Company is allowed to retain VAT on any sales that it collects to the extent of the VAT recorded and paid on previous expenditures.

The depletion expense calculation for the period ended May 31, 2012 included $3.9 million (2011 – $4 million) for estimated future development costs associated with proved and probable reserves in Argentina.

During the period ended May 31, 2011, the Company sold Canadian oil and gas properties for total proceeds of $280,000 resulting in a gain of $244,558.

(Canadian dollars)

7. OTHER NON-CURRENT ASSETS

Other non-current assets are comprised of $573,057 of interest bearing bonds and $20,835 of long-term receivables.

In 2009, the Argentina state owned natural gas transportation company commenced a project to increase capacity on the pipeline connecting Tierra del Fuego with the mainland. Antrim Argentina was obligated to invest in the project through the purchase of interest bearing bonds issued by a national trust created by the Argentine government. As at May 31, 2012, the interest rate for the period was 18.41%. Repayment of the bonds is in thirty quarterly instalments that commenced in January 2011.

8. DECOMMISSIONING PROVISION:

The Company's decommissioning provision results from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. At May 31, 2012 the estimated total undiscounted inflation-adjusted amount of cash flows required to settle the Company's obligations were approximately $7.9 million (August 31, 2011 – $3.1 million). These costs are expected to be incurred over the next 15 years. The decommissioning obligations have been estimated using existing technology at current prices and discounted using discount rates that reflect current market assessments of the time value of money and the risks specific to each liability. An average risk-free interest rate of 12.8% (August 31, 2011 – 12.5%) and an inflation rate of 9.9% (August 31, 2011 – 9.9%) was used to calculate the fair value of the decommissioning provision in Argentina.

A reconciliation of the decommissioning provision is provided below:

	Nine months ended May 31, 2012	Year ended August 31, 2011
Balance, beginning of period	$ 565,291	$ 283,453
Incurred	145,788	261,600
Accretion	55,500	46,551
Acquired (Note 3)	2,506,567	69,575
Disposed	–	(29,402)
Change in estimates	13,285	(13,249)
Effect in movement in exchange rates	22,351	(53,237)
Balance, end of period	$ 3,308,782	$ 565,291

9. SHARE CAPITAL:

(a) Authorized

Unlimited number of common shares without par value

Unlimited number of Class "A" preferred shares of $1 each par value

(b) Issued and outstanding

i. On May 28, 2012, the Company issued 35,761,290 common shares pursuant to the acquisition of Antrim Argentina as described in Note 3.

ii. On December 15, 2011, the Company issued 13,774,900 common shares pursuant to a bought-deal financing at a price of $0.95 per share for gross proceeds of $13,086,155. Share issue costs of $1,215,041 were incurred as part of the financing.

(Canadian dollars)

9. SHARE CAPITAL (CONTINUED):

(b) Issued and outstanding (continued)

iii. During the nine months ended May 31, 2012, the Company issued 303,729 common shares on the exercise of the same number of warrants for gross proceeds of $303,828.

iv. During the nine months ended May 31, 2012, the Company issued 396 common shares and 198 Series A Warrants on the exercise of 396 finders' options for gross proceeds of $297.

v. On March 10, 2011, the Company issued 12,825,000 common shares pursuant to a bought-deal financing at a price of $1.95 per share for gross proceeds of $25,008,750. Share issue costs of $1,669,406 were incurred as part of the financing.

vi. During December 2010, the Company issued 9,167,917 common shares pursuant to a bought deal financing at a price of $1.55 per share for gross proceeds of $14,210,271. Share issue costs of $1,189,438 were incurred as part of the financing.

vii. In connection with the private placements issued during the 2011 year, the Company issued 203,311 warrants to the brokers and has included an expense of $123,118 in share issue costs and proceeds from private placements.

(c) Share-based payments

Stock options

The Company's stock option plan provides for the granting of options to directors, officers, employees and consultants. Under the terms of the option plan, options issued will not exceed 10% of the issued and outstanding shares from time to time. The option price under each option is not less than the market price on the grant date. One third of the options granted vest immediately and the remainder generally vest in equal tranches on the first and second year anniversaries of the date of grant. The expiry date for each option is set by the Board of Directors at the time of issue and cannot be more than five years after the grant date.

Stock option activity is summarized as follows:

	Nine months ended May 31, 2012		Year ended August 31, 2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	3,365,000	$ 1.32	2,440,000	$ 0.85
Granted	2,345,000	0.81	1,355,000	1.95
Forfeited/expired	–	–	(60,000)	1.22
Exercised	–	–	(370,000)	0.51
Balance, end of period	5,710,000	$ 1.11	3,365,000	$ 1.32
Balance exercisable, end of period	3,359,986	$ 0.96	2,145,000	$ 1.06

(Canadian dollars)

9. SHARE CAPITAL (CONTINUED):

(c) Share-based payments (continued)

Stock options outstanding and exercisable at May 31, 2012 are as follows:

Expiry date	Exercise price	Outstanding	Exercisable
June 28, 2012	$ 0.80	200,000	200,000
August 24, 2012	0.63	275,000	275,000
July 9, 2013	0.60	360,000	360,000
July 18, 2013	0.60	150,000	150,000
October 7, 2014	0.70	150,000	150,000
February 23, 2015	0.86	25,000	25,000
June 9, 2015	1.22	800,000	531,663
June 24, 2015	1.22	50,000	33,333
March 18, 2016	1.96	1,205,000	803,329
June 9, 2016	1.98	100,000	33,333
August 2, 2016	1.70	50,000	16,666
October 19, 2016	1.25	150,000	50,000
May 1, 2017	0.78	2,045,000	681,662
May 31, 2017	0.78	150,000	50,000
		5,710,000	3,359,986

During the three and nine months ended May 31, 2012, the Company recognized $664,562 and $1,387,908 (three and nine months ended May 31, 2011 – $802,959 and $1,143,044), respectively, of share-based compensation. As at May 31, 2012, the remaining unvested share-based compensation was $1,268,650.

The fair value of each stock option is estimated using Black-Scholes options pricing model with the following weighted average assumptions:

	May 31, 2012	August 31, 2011
Risk free interest rate	1.6%	2.5 %
Expected life	5 years	5 years
Forfeiture rate	0%	0%
Expected volatility	116%	104%
Dividend yield	0%	0%

The grant date weighted average fair value of stock options granted in the period ended May 31, 2012 was $0.66 per option (August 31, 2011 – $0.87 per option). The fair value, estimated at the grant date for options issued to directors, officers and employees and the measurement date for options issued to consultants, is expensed on a graded basis over the vesting terms of the options.

(Canadian dollars)

9. SHARE CAPITAL (CONTINUED):

(d) Finders' options

	Number of Options		Exercise Price
Balance, September 1, 2010	203,707	$	0.75
Exercised	(203,311)		0.75
Balance, August 31, 2011	396	$	0.75
Exercised	(396)		0.75
Balance, May 31, 2012	–	$	–

Finders' options vested on the date of grant and entitled the holder to acquire one Unit at $0.75 until May 5, or May 31, 2012. Each Unit consists of one common share plus one-half of one Series A Warrant. See Note 9(e).

(e) Share purchase warrants

	Series A Warrant		Exercise Price	Series B Warrant		Exercise Price
Balance, September 1, 2010	3,027,585	$	–	–	$	–
Issued	101,656		1.00	1,249,925		1.50
Exercised	(1,249,925)		1.00	(247,560)		1.50
Balance, August 31, 2011	1,879,316		1.00	1,002,365		1.50
Issued	198		1.00	303,531		1.50
Exercised	(303,531)		1.00	(198)		1.50
Expired	(1,541,983)		1.00	–		1.50
Balance, May 31, 2012	34,000	$	1.00	1,305,698	$	1.50

Upon the exercise of a Series A Warrant, a Series B Warrant will be issued entitling the holder to acquire a common share of the Company at $1.50 until dates ranging from May 5, 2012 to May 31, 2013.

Share purchase warrants outstanding are as follows:

Expiry date	Exercise price	May 31, 2012
June 11, 2012	$ 1.00	34,000
May 5, 2013	1.50	1,008,494
May 31, 2013	1.50	297,204
		1,339,698

A total combined fair value of $0.16 per Series A and Series B warrant was ascribed to the warrants on the date of issue in the year ended August 31, 2010, based on the Black-Scholes option pricing model. Assumptions used in the Black-Scholes calculation included an expected life of 1 year (Series B – 3 years), volatility of 102% (Series B – 102%) and a risk free interest rate of 1.26% (Series B – 1.26%). The fair value of the warrants was recorded in the same caption as the common shares issued.

(Canadian dollars)

10. PER SHARE AMOUNTS

	For the three months ended May 31 2012	For the three months ended May 31 2011	For the nine months ended May 31 2012	For the nine months ended May 31 2011
Loss from continuing operations	$ (1,963,048)	$ (1,243,172)	$ (3,261,659)	$ (1,467,987)
Income from discontinued operations	–	816	–	18,923
Net loss	(1,963,048)	(1,242,356)	(3,261,659)	(1,449,064)
Basic weighted average number of shares:				
Issued common shares, September 1	54,674,907	30,353,129	54,674,907	30,353,129
Effect of shares issued	15,188,295	14,346,436	8,954,531	10,492,955
	69,863,202	44,699,565	63,629,438	40,846,084
Basic per share amounts:				
Loss from continuing operations	(0.03)	(0.03)	(0.05)	(0.04)
Income from discontinued operations	–	–	–	–
Net loss	(0.03)	(0.03)	(0.05)	(0.04)

During the three and nine months ended May 31, 2012 and 2011, all stock options, finders options and share purchase warrants were excluded from the diluted per share amounts as their effect was anti-dilutive.

11. SUPPLEMENTAL CASH FLOW INFORMATION:

Change in non-cash working capital items:

	Three months ended May 31 2012	Three months ended May 31 2011	Nine months ended May 31 2012	Nine months ended May 31 2011
Trade and other receivables	$ (14,897)	$ 445,501	$ 352,643	$ 36,545
Inventory	264,557	71,158	(5,091)	(138,715)
Prepaid expenses	(130,554)	(45,318)	(236,228)	(45,318)
Trade and other payables	4,196,490	65,785	524,679	(2,311,087)
	$ 4,315,596	$ 537,126	$ 636,003	$ (2,458,575)
Attributable to:				
Operating activities	732,401	471,347	658,934	(147,488)
Investing activities	3,583,195	65,779	(22,931)	(2,311,087)
	$ 4,315,596	$ 537,126	$ 636,003	$ (2,458,575)

The breakdown of the Company’s cash and cash equivalents is as follows:

	May 31 2012	August 31 2011
Cash in bank	$ 7,510,812	$ 1,953,611
Short-term investments	19,929,346	25,276,714
	$ 27,440,158	$ 27,230,325

12. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

The Company is exposed to various risks that arise from its business environment and the financial instruments it holds. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework, policies and procedures. The following outlines the Company's risk exposures and explains how these risks and its capital structure are managed.

(a) Capital management:

The Company's objective is to maintain a strong capital position in order to execute on its exploration and development plans and maximize shareholder value.

The Company currently defines its capital as shareholders' equity. Changes to the relative weighting of the capital structure are driven by our business plans, changes in economic conditions and risks inherent in the oil and gas industry. In order to maintain or adjust the capital structure, the Company may consider any or all of the following activities, depending on existing economic conditions and access to external capital sources:

- Issue new shares through a public offering or private placement;
- Consolidate outstanding common shares;
- Farm-out of existing exploration opportunities; or
- Raise fixed or floating interest rate debt.

The Company is not subject to any external restrictions on its capital structure and has no debt facilities.

The Company periodically reviews its capital structure in relation to its exploration and development budgets. The Company's capital management is currently focused on completion of existing exploration commitments and providing for the Company's share of any development programs.

(b) Credit risk:

The Company is exposed to credit risk in relation to its cash and cash equivalents, trade and other receivables and other non-current assets.

Cash and cash equivalents are held with highly rated Canadian and international banks. Therefore, the Company does not believe these financial instruments are subject to material credit risk.

The Company's trade and other receivables are exposed to the risk of financial loss if the counterparty fails to meet its contractual obligations. The Company's trade and other receivables include amounts due from the sale of crude oil and from its Argentina operators which are subject to normal industry credit risk. The majority of the Company's oil production is sold to the Argentina subsidiary of a major international oil and gas company. The carrying amounts of cash and cash equivalents and trade and other receivables represent the Company's maximum credit exposure. The Company has not recorded an allowance for doubtful accounts and has not written off any trade and other receivables in the periods ended May 31, 2012 and August 31, 2011.

12. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (CONTINUED):

(b) Credit risk (continued)

As at May 31, 2012 and August 31, 2011, the Company's trade and other receivables are aged as follows:

	May 31, 2012	August 31, 2011
Not past due (less than 90 days)	$ 4,280,406	$ 925,521
Past due (more than 90 days)	22,328	151,905
Total trade and other receivables	$ 4,302,734	$ 1,077,426

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company manages its liquidity risk through management of its capital structure and annual budgeting of its revenues, expenditures and cash flows. As of May 31, 2012 the Company has working capital of $26,409,900 (August 31, 2011 – $24,405,427) which given planned capital expenditures, administrative overhead requirements and commitments, is sufficient to meet all current financial obligations in the upcoming year.

(d) Market risk:

Changes in commodity prices, interest rates and foreign currency exchange rates can expose the Company to fluctuations in its net earnings and in the fair value of its financial assets and liabilities.

(i) Commodity price risk:

Price fluctuations for both crude oil and natural gas are determined by world supply and demand factors. The Company has no influence over the pricing of oil and natural gas and has not attempted to mitigate commodity price risk through the use of financial derivatives. Currently all of the Company's oil and gas revenue is from an oil and natural gas property in Argentina. Oil prices in Argentina are subject to domestic market discounts which result in prices significantly below world benchmark rates.

(ii) Interest rate risk:

The Company is exposed to interest rate fluctuations on its investments of excess cash in short-term money market investments held with international banks. Assuming all other variables remain constant, a 1% decrease or increase in the interest rate applicable to the Company's cash and cash equivalents would result in a $199,300 decrease or increase to net loss.

(iii) Foreign currency exchange rate risk:

A substantial portion of the Company's exploration and development activities are conducted in foreign jurisdictions and a portion of the Company's cash and cash equivalents are denominated in US dollars (USD) and Argentina Pesos (ARS). The Company has not entered into foreign exchange rate contracts to mitigate this risk.

(Canadian dollars)

12. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (CONTINUED):

(d) Market risk (continued)

The following table provides information on the foreign currency denominated financial instruments held by the Company at May 31, 2012:

	Balance denominated in		Total CDN $
	USD	ARS	equivalents
Cash and cash equivalents	$ 416,962	$ 25,754,775	$ 6,393,745
Trade and other receivables	$ 3,414,697	$ 3,087,785	$ 4,248,692
Trade and other payables	$ 3,341,265	$ 11,688,227	$ 6,169,699

(iv) Sensitivity analysis:

The following table presents an estimate of the impact on net loss of the market risk factors discussed above and is calculated based on the noted change in the market factor applied to the balance at the end of the period.

Market risk	Changes in market factor	Change in loss before tax
Foreign exchange - effect of strengthening CAD$:		
USD denominated financial assets and liabilities	5%	$ 25,375
ARS denominated financial assets and liabilities	5%	$ 198,561

(v) Fair value of financial instruments:

The Company's financial instruments include cash and cash equivalents, trade and other receivables and trade and other payables, the carrying values of which approximate their fair values due to their short-term nature. Financial instruments also include other non-current assets for which fair value is not materially difference than the carrying amount.

(Canadian dollars)

13. SEGMENTED INFORMATION:

The Company's one reportable operating segment is the acquisition, exploration and development of oil and gas properties. Geographic information is as follows:

	Canada	Argentina	Total
	$	$	$
May 31, 2012			
Assets	21,199,223	74,880,518	96,079,741
Liabilities	(721,736)	(9,472,475)	(10,194,211)
Three months ended May 31, 2012			
Revenue	96,575	1,937,752	2,034,327
Net loss for the period	(1,885,859)	(77,189)	(1,963,048)
Nine months ended May 31, 2012			
Revenue	249,923	5,858,338	6,108,261
Net (loss) income for the period	(3,319,831)	58,172	(3,261,659)
August 31, 2011			
Assets	25,673,837	25,738,098	51,411,935
Liabilities	(190,531)	(4,891,231)	(5,081,762)
Three months ended May 31, 2011			
Revenue	71,843	336,367	408,210
Net loss for the period	(178,116)	(1,064,240)	(1,242,356)
Nine months ended May 31, 2011			
Revenue	71,843	2,362,594	2,434,437
Net loss for the period	(607,111)	(841,953)	(1,449,064)

14. COMMITMENTS:

(a) As at May 31, 2012, the Company is committed to future payments for office space rental and a proportionate share of operating costs in the amount of $4,437 per month until August 31, 2012.

In June 2012, the Company signed a new lease for office space rental and a proportionate share of operating costs in the amount of $23,294 per month commencing November 1, 2012 until October 31, 2014, $23,903 from November 1, 2014 to October 31, 2017 and $24,512 from November 1, 2017 to October 31, 2019. The Company's occupancy date is July 23, 2012.

(b) Cañadón Ramirez Concession

The Cañadón Ramirez Concession is not subject to any mandatory relinquishments of acreage nor any outstanding work commitments other than the work plans submitted by the Company to the Provincial and Federal governments on a yearly basis.

The Company has the right to freely market and dispose of the hydrocarbons lifted from the area, after paying the standard 12% production royalties to the Province of Chubut. In addition, the Company is required to pay a yearly surface rent of ARS$87,052 (Cdn$20,153) based on a rate of ARS$3,445 (Cdn$798) per square kilometre on the acreage covered by the Cañadón Ramirez Concession.

14. COMMITMENTS (CONTINUED):

(c) Cerro De Los Leones Concession

The Company will have the following work commitments with respect to its 49.9% interest in the Cerro De Los Leones Concession in the event that the necessary environmental permits are received:

- Commencing upon the receipt by the Company of the environmental permits, US$13.85 million (Cdn$14.33 million) of expenditures over a three-year period ("Period 1");
- Commencing upon the expiry of Period 1, US$0.75 million (Cdn$0.78 million) of expenditures including one exploration well over a two-year period ("Period 2"); and
- Commencing upon the expiry of Period 2, one exploration well ("Period 3").

If the Company fails to make the necessary expenditures during Period 1, it will surrender all of the land on that concession.

If a commercial discovery is made by the holders of the Cerro Los Leones Permit, they shall be entitled to obtain an exclusive 25-year exploitation concession to produce hydrocarbons from the relevant discovery and shall also be granted the right to freely market and dispose of the hydrocarbons lifted from the area, after paying the standard monthly 16% production royalties to the Province of Mendoza. The Cerro Los Leones Permit is also subject to the payment of yearly surface rent per square kilometre on the acreage covered by the Cerro Los Leones Permit.

(d) Laguna de Piedra Concession

The Company will have the following work commitments with respect to its 100% interest in the Laguna de Piedra Concession in the event that the necessary environmental work permits are received:

- Commencing upon the receipt by the Company of the environmental permits, US$2.85 million (Cdn$2.94 million) of expenditures over a two-year period ("Period 1") including a minimum of one exploration well,; and
- Commencing upon the expiry of Period 1, US$1.75 million (Cdn$1.81 million) of expenditures including one exploration well over a one-year period ("Period 2").

If a commercial discovery is made by the holders of the Laguna de Piedra Permit, they shall be entitled to obtain an exclusive 25-year exploitation concession to produce hydrocarbons from the relevant discovery and shall also be granted the right to freely market and dispose of the hydrocarbons from the relevant discovery, after paying the standard monthly 12% production royalties to the State of Rio Negro. The Laguna de Piedra Permit is also subject to the payment of yearly surface rent per square kilometre on the acreage covered by the Laguna de Piedra Permit.

(Canadian dollars)

15. CHANGE IN ACCOUNTING POLICY:

Effective March 1, 2011 the Company retrospectively changed its accounting policy for recognition of stock-based compensation to more appropriately align itself with policies applied by other comparable companies. Prior to March 1, 2011, the Company used the straight-line approach to recognize the fair value of the options granted.

The Company now recognizes the fair value of options based on the graded-vesting method. The impact of this change on the previously reported consolidated financial statements is as follows:

	Previously reported	Adjustment	Restated
Consolidated statement of financial position as at			
September 1, 2010:			
Deficit	$ (15,950,556)	$ (44,443)	$ (15,994,999)
Contributed surplus	1,476,163	44,443	1,520,606

There was no effect on amounts per share as a result of the change in accounting policy.

16. TRANSITION TO IFRS:

The Company's accounting policies under IFRS are different from those followed under Canadian GAAP, as disclosed in Note 2 to the condensed interim financial consolidated statements for the three months ended November 30, 2011. These accounting policies have been applied in preparing the condensed interim consolidated financial statements as at and for the three and nine months ended May 31, 2012, and the comparative statements for the three and nine months ended May 31, 2011. The adjustments arising from the application of IFRS to amounts on the statement of financial position on the transition date, and on transactions prior to that date, were recognized as an adjustment to the Company's opening deficit in the consolidated statement of financial position when appropriate.

Exemptions Applied

On transition to IFRS on January 1, 2010, the Company used the IFRS mandatory exemption for the retrospective application of certain IFRS whereby hindsight was not used to create or revise estimates and accordingly, the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS.

IFRS 1 First-time Adoption of International Financial Reporting Standards allows first-time adopters certain exemptions from the general requirement to retrospectively apply IFRS that were effective as at the date of transition to IFRS, September 1, 2010. The Company has applied the following exemptions:

- Business combinations exemption that exempts the Company from having to restate business combinations that occurred prior to the date of transition.
- Deemed cost exemption for full cost oil and gas entities whereby exploration and evaluation assets were reclassified from the full cost pool to exploration and evaluation assets and the remaining full cost pool was allocated to development and production assets on a pro-rata basis using reserve values as of September 1, 2010.

(Canadian dollars)

16. TRANSITION TO IFRS (CONTINUED):

- Foreign currency translation exemption whereby the Company set cumulative translation differences for its foreign operations to zero at the date of transition.
- Decommissioning provision exemption whereby the difference between the net carrying amount of the Company's decommissioning provision as measured under IFRS and the net carrying amount under Canadian GAAP as of September 1, 2010 has been recognized directly in opening deficit.
- Share-based payments exemption whereby the estimated fair value of stock options and warrants under Canadian GAAP that were expired, forfeited or cancelled prior to the transition date has been removed from contributed surplus and recognized directly in opening deficit.

Reconciliations from Canadian GAAP to IFRS

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's consolidated statements of financial position, statements of loss and comprehensive income (loss) as at the date of transition and for comparative periods is set out in the following reconciliations and in the notes that accompany the reconciliations. Certain amounts on the statements of financial position and the statements of loss and comprehensive income (loss) have been reclassified to conform to the presentation adopted under IFRS.

Reconciliation of the condensed interim consolidated statement of financial position as at May 31, 2011:

	Notes	**Canadian GAAP Restated** (Note 16)	Adjustment	**IFRS**
		($)	($)	($)
ASSETS				
Current assets				
Cash and cash equivalents		32,731,590	–	32,731,590
Trade and other receivables		241,612	–	241,612
Inventory		138,715	–	138,715
Prepaid expenses		278,572	–	278,572
Income tax receivable		70,000	–	70,000
		33,460,669	–	33,460,669
Property and equipment	(a) (b) (d)	18,780,296	(11,980,606)	6,799,690
Exploration and evaluation assets	(a) (b)	–	8,330,106	8,330,106
Deferred income taxes		41,000	–	41,000
		52,281,965	(3,650,500)	48,631,465
LIABILITIES & SHAREHOLDER'S EQUITY				
Current liabilities				
Trade and other payables		810,954	–	810,954
Decommissioning provision	(a)	261,497	103,840	365,337
		1,072,451	103,840	1,176,291
Shareholder's equity				
Share capital		67,066,246	–	67,066,246
Contributed surplus	(e)	2,420,121	(291,462)	2,128,659
Accumulated other comprehensive loss	(a)	–	(2,262,061)	(2,262,061)
Deficit	(a) – (e)	(18,276,853)	(1,200,817)	(19,477,670)
		51,209,514	(3,754,340)	47,455,174
		52,281,965	(3,650,500)	48,631,465

(Canadian dollars)

16. TRANSITION TO IFRS (CONTINUED):

Reconciliation of Loss and Comprehensive Loss for the three and nine months ended May 31, 2011:

		Three months ended			Nine months ended		
	Note	Canadian GAAP	Adjustment	IFRS	Canadian GAAP	Adjustment	IFRS
		($)	($)	($)	($)	($)	($)
Revenues							
Oil and gas		345,490	–	345,490	2,362,594	–	2,362,594
Royalties		(76,193)	–	(76,193)	(532,898)	–	(532,898)
		269,297	–	269,297	1,829,696	–	1,829,696
Interest		71,843	–	71,843	71,843	–	71,843
		341,140	–	341,140	1,901,539	–	1,901,539
Expenses							
Operating		108,998	–	108,998	620,020	–	620,020
General and administrative		522,479	–	522,479	1,260,144	23,901	1,284,045
Share-based payments		802,959	–	802,959	1,143,044	–	1,143,044
Financing fees and bank charges		47,980	–	47,980	136,116	–	136,116
Depletion and depreciation	(d)	212,079	(114,797)	97,282	1,448,704	(901,426)	547,278
Finance costs	(c)	4,079	7,625	11,704	11,431	13,337	24,768
Foreign exchange loss (gain)	(a)	(14,622)	7,532	(7,090)	(131,584)	31,397	(100,187)
Gain on sale of property and equipment		–	–	–	(244,558)	–	(244,558)
		1,683,952	(99,640)	1,584,312	4,243,317	(832,791)	3,410,526
Loss from continuing operations before income taxes		(1,342,812)	99,640	(1,243,172)	(2,341,778)	832,791	(1,508,987)
Deferred income reduction		–	–	–	41,000	–	41,000
Loss from continuing operations		(1,342,812)	99,640	(1,243,172)	(2,300,778)	832,791	(1,467,987)
Income from discontinued operations		816	–	816	18,923	–	18,923
Net loss for the period		(1,341,996)	99,640	(1,242,356)	(2,281,855)	832,791	(1,449,064)
Exchange differences on translation of foreign operations	(a)	–	(670,896)	(670,896)	–	(2,262,061)	(2,262,061)
Total comprehensive loss for the period		(1,341,996)	(571,256)	(1,913,252)	(2,281,855)	(1,429,270)	(3,711,125)

(a) Changes in functional currency

Under Canadian GAAP, the basis of measurement for foreign operations is dependent upon whether an operation is classified as integrated or self-sustaining. The measurement currency of integrated subsidiaries is the same currency as the parent and the measurement currency of a self-sustaining subsidiary is the foreign currency. Under IFRS, the concepts of integrated and self-sustaining subsidiaries are not relevant, rather the functional currency of each individual entity must be determined.

IAS 21 requires management to give priority to certain primary factors in determining functional currency before considering secondary factors; whereas under Canadian GAAP the factors for determining whether an operation is integrated or self-sustaining are not weighted. The weighting under IFRS may result in an entity reaching a different conclusion on functional currency for its foreign operations even though the IFRS factors are similar to those under Canadian GAAP.

Under Canadian GAAP, the Company concluded that the functional currency of its foreign operations was the Canadian dollar. As a result of differences in the guidance for functional currency determination, the Company concluded that under IFRS the functional currency of its foreign subsidiary is Argentine pesos (ARS).

16. TRANSITION TO IFRS (CONTINUED):

(a) Changes in functional currency (continued)

In accordance with IFRS, foreign currency transactions are translated into the respective functional currencies of Crown Point and subsidiary using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit and loss. Under IFRS Crown Point continues to present its consolidated financial statements in CDN$. The Company translates the results and financial position of its subsidiaries from their functional currencies into CDN$ as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
(ii) income and expenses for each year are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
(iii) all resulting exchange differences are recognized in a separate component of equity called ''accumulated other comprehensive income".

The Company did not recognize such gains and losses under Canadian GAAP because the measurement and presentation currencies of Crown Point's entities were all CDN$. As a consequence of this change, gains and losses related to the translation of the financial statements of the subsidiaries are recorded through other comprehensive income and do not impact net income until a disposal or partial disposal of a foreign operation occurs.

On transition to IFRS, Crown Point elected to utilize the IFRS 1 cumulative translation differences exemption, which exempted the Company from calculating the translation difference related to foreign operations retrospectively. At September 1, 2010, Crown Point's cumulative translation differences of $896,306 arising from the retrospective application of the change in the functional currencies of the subsidiary were reclassified to deficit.

For the nine months ended May 31, 2011, IFRS transition differences resulted in an exchange loss on translation of foreign operations of $2,262,061.

(b) Property and equipment and exploration and evaluation ("E&E") assets

IFRS 1 – Deemed Cost:

The Company applied the IFRS 1 exemption whereby the value of its opening property and equipment at September 1, 2010 was deemed to be equal to the net book value as determined under Canadian GAAP and the corresponding Cash Generating Units ("CGU's") were tested for impairment. The Company chose to allocate its costs to its CGU's based on proved plus probable reserve volumes.

Under Canadian GAAP, the Company followed the full cost method of accounting for expenditures on petroleum and natural gas properties. All costs associated with the exploration for and the development of petroleum and natural gas reserves are capitalized in country-based cost centers. Under IFRS, pre-exploration costs are recognized in the profit or loss as incurred. Costs incurred after the legal right to explore has been obtained and before technical feasibility and commercial viability have been determined are capitalized as E&E assets.

16. TRANSITION TO IFRS (CONTINUED):

(b) Property and equipment and E&E assets (continued)

Once an exploration area has been deemed to be technically feasible and commercially viable, E&E costs are reclassified to development and production (“D&P”) assets, a separate category of property and equipment.

Reclassifications from property and equipment under Canadian GAAP to E&E assets:

As at September 1, 2010, $4,218,303 was reclassified from property and equipment to E&E assets and $3,043 was charged to the deficit and loss for pre-exploration costs. During the nine months ended May 31, 2011, an additional $4,111,803 was reclassified from property and equipment to E&E assets for a total reclassification of $8,330,106.

Impairment:

Upon transition to IFRS, the Company assessed the existence of facts and circumstances that would suggest that the carrying value of the E&E and D&P assets may exceed their recoverable value. The assessment resulted in the impairment of $1,332,514, being one component of the E&E assets and one component of the D&P assets, which have been ascribed a $nil value, following the decision to abandon the components.

(c) Decommissioning provision

Consistent with Canadian GAAP, the decommissioning provision (referred to as asset retirement obligation under Canadian GAAP) is measured based on the estimated cost of the decommissioning, discounted to the net present value upon initial recognition. However, under Canadian GAAP, the provision was discounted at a credit adjusted risk free rate whereas under IFRS, the entity is required to risk-adjust the discount rate or its estimated cash flows, but not both.

Under IFRS, the Company has chosen to risk-adjust its estimated cash flows and use a risk-free rate to discount the decommissioning provision under IFRS.

On the date of transition to IFRS, the Company recorded a $93,205 increase to the decommissioning provision and opening deficit. During the nine months ended May 31, 2011, IFRS transition differences resulted in an increase in the unwinding discount of $13,337 and upward revisions for changes in the risk-free rate of $90,503. As at May 31, 2011, the cumulative adjustment to the decommissioning revision was $103,840.

For financial statement presentation, under IFRS the periodic unwinding of decommissioning provision discount is recognized in earnings as a separate line item called finance cost, as opposed to accretion expense grouped with depreciation and depletion expense under Canadian GAAP.

16. TRANSITION TO IFRS (CONTINUED):

(d) Depletion

Upon transition to IFRS, the Company adopted a policy of depleting the componentized net book values of producing assets using the unit of production method with reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Depletion under Canadian GAAP was calculated with reference to proved reserves whereby costs accumulated in each country cost center together with an estimate of future costs to develop proved reserves were depleted using the unit of production method.

At September 1, 2010, El Valle, in Argentina, was deemed by management to be technically feasible and commercially viable and costs attributed to the concession were transferred from E&E assets to D&P assets, a separate category within property and equipment. Therefore, there was no impact of this difference on adoption of IFRS at September 1, 2010. Depletion was calculated on the D&P assets beginning in the first quarter of 2011.

As a result of the transition to IFRS, depletion for the three and nine months ended May 31, 2011 decreased by $114,797 and $901,426, respectively.

(e) Contributed surplus

Upon transition to IFRS, the Company determined the estimated fair value under Canadian GAAP of all stock options and warrants that were expired, cancelled, or forfeited at the transition date, and recognized such amount directly in opening deficit.

(f) Cash flow statement

The transition to IFRS had no significant impact on the Company's cash flows for the three and nine months ended May 31, 2011.