Consolidated Financial Statements of

CROWN POINT VENTURES LTD.

Years ended August 31, 2011 and 2010

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation of the consolidated financial statements and the consistent presentation of all other financial information that is publicly disclosed. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include estimates and assumptions based on management's best judgment. Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced in a timely manner. Independent auditors appointed by the shareholders have examined the consolidated financial statements. The Audit Committee, comprising independent members of the Board of Directors, have reviewed the consolidated financial statements with management and the independent auditors. The Audit committee is responsible for setting the remuneration of the independent auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

"Murray McCartney"	*"Arthur J.G. Madden"*
Murray McCartney	Arthur J.G. Madden
President	Chief Financial Officer

Calgary, Alberta

December 21, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Crown Point Ventures Ltd.

We have audited the accompanying consolidated financial statements of Crown Point Ventures Ltd., which comprise the consolidated balance sheet as at August 31, 2011, the consolidated statements of operations and cash flows for the year ended August 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Crown Point Ventures Ltd. as at August 31, 2011, and the results of its consolidated operations and its consolidated cash flows for the year ended August 31, 2011 in accordance with Canadian generally accepted accounting principles.

Other matters

Without modifying our opinion, we draw attention to note 3 to the consolidated financial statements which indicates that the comparative information presented as at and for the year ended August 31, 2010 has been restated for a change in accounting policy.

The consolidated financial statements of Crown Point Ventures Ltd. as at and for the year ended August 31, 2010, excluding the restatement described in note 3 to the consolidated financial statements, were audited by another auditor who expressed an unmodified opinion on those statements on December 17, 2010.

As part of our audit of the consolidated financial statements as at and for the year ended August 31, 2011, we audited the restatement described in note 3 to the consolidated financial statements that was applied to restate the comparative information as at and for the year ended August 31, 2010. In our opinion, the restatement is appropriate and has been properly applied.

We were not engaged to audit, review, or apply any procedures to the consolidated financial statements as at and for the year ended August 31, 2010 other than with respect to the restatement described in note 3 to the consolidated financial statements and, accordingly, we do not express an opinion or any other form of assurance on the consolidated financial statements as at and for the year ended August 31, 2010 taken as a whole.

"KPMG LLP"

Chartered Accountants

December 21, 2011
Calgary, Canada

CROWN POINT VENTURES LTD.
Consolidated Balance Sheets

August 31, 2011 and 2010

(CDN $)	2011	2010 (restated note 3)
Assets		
Current assets:		
Cash and cash equivalents	$ 27,230,325	$ 1,769,501
Accounts receivable	1,077,426	329,183
Prepaid expenses	614,147	233,434
Accounts receivable related to discontinued operations (note 4)	–	18,974
	28,921,898	2,351,092
Property and equipment (note 6)	25,916,364	13,873,644
Property and equipment related to discontinued operations (note 4)	–	80,551
Future income taxes (note 13)	–	41,000
	$ 54,838,262	$ 16,346,287
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 4,516,471	$ 2,388,208
Accounts payable and accrued liabilities related to discontinued operations (note 4)	–	148,953
	4,516,471	2,537,161
Asset retirement obligations (note 7)	248,310	160,846
Asset retirement obligations related to discontinued operations (note 4)	–	29,402
	4,764,781	2,727,409
Shareholders' equity:		
Capital stock (note 8(b))	67,132,442	28,093,271
Contributed surplus (note 9)	2,755,436	1,520,606
Deficit	(19,814,397)	(15,994,999)
	50,073,481	13,618,878
	$ 54,838,262	$ 16,346,287

Commitments (note 16)
Subsequent event (note 17)

See accompanying notes to the consolidated financial statements.

Approved on Behalf of the Board:

"Gordon Kettleson"
Gordon Kettleson
Director

"Murray McCartney"
Murray McCartney
Director

CROWN POINT VENTURES LTD.

Consolidated Statements of Operations and Deficit

Years ended August 31, 2011 and 2010

(CDN $)	2011	2010 (restated note 3)
Revenues:		
Oil and gas	$ 3,839,359	$ –
Royalties	(818,877)	–
	3,020,482	–
Interest	179,409	–
	3,199,891	–
Expenses:		
Operating	1,044,832	–
General and administrative	2,230,172	1,269,278
Stock-based compensation (note 8(d))	1,478,359	493,554
Financing fees and bank charges	408,014	164,809
Depletion, depreciation and accretion	2,185,745	53,785
Transaction costs (note 5)	23,001	–
Foreign exchange loss	70,744	115,888
	7,440,867	2,097,314
Loss from continuing operations before income taxes	(4,240,976)	(2,097,314)
Income taxes (note 13):		
Future income tax expense (reduction)	41,000	(67,178)
Loss from continuing operations	(4,281,976)	(2,030,136)
Income from discontinued operations (note 4)	462,578	434,875
Net loss and comprehensive loss	(3,819,398)	(1,595,261)
Deficit, beginning of year	(15,994,999)	(14,399,738)
Deficit, end of year	$ (19,814,397)	$ (15,994,999)
Loss from continuing operations per share (note 10):		
Basic	$ (0.10)	$ (0.09)
Diluted	$ (0.10)	$ (0.09)
Income from discontinued operations per share (note 10):		
Basic	$ 0.01	$ 0.02
Diluted	$ 0.01	$ 0.02
Net loss per share (note 10):		
Basic	$ (0.09)	$ (0.07)
Diluted	$ (0.09)	$ (0.07)

See accompanying notes to the consolidated financial statements.

CROWN POINT VENTURES LTD.

Consolidated Statements of Cash Flows

Years ended August 31, 2011 and 2010

(CDN $)	2011	2010
Cash provided by (used in):		
Operating:		
Loss from continuing operations	$ (4,281,976)	$ (2,030,136)
Items not affecting cash:		
Depletion, depreciation and accretion	2,185,745	53,785
Stock-based compensation	1,478,359	493,554
Future income tax expense	41,000	–
Foreign exchange	47,822	–
	(529,050)	(1,482,797)
Changes in non-cash working capital (note 11)	(1,117,187)	(922,946)
Cash used in operating activities	(1,646,237)	(2,405,743)
Discontinued operations (note 4):		
Income from discontinued operations	462,578	434,875
Items not involving cash:		
Depletion and accretion included in discontinued operations	31,815	110,020
Impairment	–	180,876
Gain on sale of property and equipment	(446,213)	(587,879)
Proceeds on sale of property and equipment	427,500	707,560
Changes in non-cash working capital (note 11)	(129,979)	(266,503)
Cash from discontinued operations	345,701	587,949
Investing:		
Expenditures on property and equipment	(13,262,081)	(5,854,738)
Acquisition of CanAmericas Argentina	(50,000)	–
Cash acquired on business combination	11,900	–
Changes in non-cash working capital (note 11)	1,765,787	–
Cash used in investing activities	(11,534,394)	(5,854,738)
Financing:		
Proceeds from issuance of common shares	41,182,120	7,775,476
Share issue costs	(2,863,898)	(371,573)
Cash from financing activities	38,318,222	7,403,903
Change in cash and cash equivalents	25,483,292	(268,629)
Foreign exchange effect on cash	(22,468)	–
Cash and cash equivalents, beginning of year	1,769,501	2,038,130
Cash and cash equivalents, end of year	$ 27,230,325	$ 1,769,501
Supplemental Information:		
Income taxes paid	$ –	$ 930,000
Interest paid	$ 3,751	$ 26,407

See accompanying notes to the consolidated financial statements.

1. Nature of business and basis of presentation:

Crown Point Ventures Ltd. ("Crown Point" or the "Company") was incorporated under the laws of British Columbia on March 16, 1966. 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.

The Company's petroleum and natural gas operations are principally in the pre-production stage, other than one concession in Argentina. During the current year, Crown Point commenced production operations in Argentina and has limited cash flow from operating activities. Therefore, the Company's ability to continue operations is dependent on identifying commercial petroleum and natural gas reserves, generating profitable operations and raising sufficient capital to complete planned exploration and development activities. The outcome of these matters cannot be predicted at this time.

The Company currently relies on equity financing to pay for exploration activities and overhead expenses. The Company currently has significant cash on hand, and has raised additional capital subsequent to year-end (note 17), to finance operations and expected growth for the foreseeable future.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), within reasonable limits of materiality and the framework of significant accounting polices described below. Certain amounts have been reclassified to conform to current period presentation. The Company's reporting currency is Canadian dollars ($).

2. Significant accounting policies:

(a) Consolidation:

These consolidated financial statements include the accounts of the Company and its wholly-owned integrated subsidiaries, Crown Point Oil & Gas SA and CanAmericas (Argentina) Energy Ltd. Intercompany transactions and balances are eliminated on consolidation.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of cash deposits and short-term money market investments with an original maturity of three months or less.

(c) Inventory:

Inventory of crude oil is valued at the lower of cost and net realizable value. Cost is determined on a first in - first out basis and relates to the direct cost of production.

2. Significant accounting policies (continued):

(d) Property and equipment:

The Company follows 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. Capitalized costs include drilling costs, lease rentals on non-producing properties, tangible production equipment, asset retirement costs and general and administrative expenses directly attributable to exploration and development activities.

Costs accumulated in each cost center together with an estimate of future costs to develop proved reserves are depleted using the unit of production method, based on estimated proved petroleum and natural gas reserves, before royalties. Reserves and production are converted to equivalent units of petroleum based on relative energy content of six thousand cubic feet of natural gas to one barrel of petroleum. Costs of acquiring and evaluating significant unproved petroleum and natural gas reserves are excluded from the depletion calculation until it is determined that proved reserves are attributable to such interest, or until impairment occurs.

Cost centers with associated proved reserves are subject to a ceiling test to determine if the net accumulated costs are recoverable. Costs are considered recoverable if the sum of the undiscounted cash flows expected from proved reserves plus the cost, less any impairment, of unproved petroleum and natural gas interests exceeds the carrying amount of the cost centre. If the carrying amount is not recoverable an impairment loss is recognized equal to the excess of the cost center carrying amount over the sum of the discounted cash flows from the production of proved and probable reserves and the cost, less any impairment, of unproved petroleum and natural gas interests. The volumes and cash flows associated with proved and probable reserves are determined by independent engineers, using expected future product prices and costs and discounted using a risk-free interest rate.

Costs of acquiring and evaluating unproved properties and major development projects, net of any preliminary testing revenue, are capitalized but excluded from the calculation of depletion and the ceiling test, until commercial production commences. Instead, these costs are evaluated at each reporting period to determine if the costs recorded are recoverable. Any costs that are considered unlikely to be recovered are written off.

2. Significant accounting policies (continued):

(d) Property and equipment (continued):

Proceeds on sale or disposition of oil and gas properties are credited to the applicable cost center unless this results in a change in the depletion and depreciation rate by 20 percent or more, in which case a gain or loss is recognized.

Office furniture, equipment and other assets are recorded at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets using a 20% declining balance basis for Canadian office furniture and equipment, a straight line basis over 3 - 10 years for Argentina office furniture and equipment and a straight line basis over the term of the lease for all leasehold improvements.

(e) Asset retirement obligations:

The Company recognizes an asset retirement obligation in the period in which a well is drilled or acquired and a reasonable estimate of the fair value of the future costs associated with removal, site restoration and asset retirement can be made. The fair value of the estimated asset retirement obligation is recorded as a long-term liability with a corresponding increase in the carrying amount of the related cost center. These costs are then amortized using the unit of production method and included in depletion, depreciation and accretion expense. The asset retirement obligations are discounted using a credit adjusted risk-free rate. The carrying amount of the liability is increased each reporting period due to the passage of time with the related accretion included in depletion, depreciation and accretion expense. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost could also result in an increase or decrease to the obligation and charge to property and equipment. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement of the asset retirement obligation and the recorded liability is recognized in the Company's statement of operations in the period in which the settlement occurs.

(f) Future income taxes:

The Company uses the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recorded based on the difference between the financial accounting and tax basis of the Company's assets and liabilities, and measured using the substantively enacted tax rates and laws anticipated to apply to the years in which the differences will reverse. The effect of a change in income tax rates in future tax liabilities and assets is recognized in income in the period that the change is substantively enacted. The Company records a future income tax asset only when it is more likely than not to be realized in the future.

2. Significant accounting policies (continued):

(g) Revenue recognition:

Petroleum and natural gas revenues are recognized when title and risks pass to the purchaser and payment is reasonably assured.

(h) Stock-based compensation:

The Company follows the fair value method of accounting for stock options. The fair value of each stock option is calculated based on the Black-Scholes option pricing model and is charged to income over the vesting period of the option, with a corresponding increase recorded in contributed surplus. Forfeitures are accounted for at grant date and adjusted based on actual vesting. Upon exercise of the stock option, the consideration received plus the amount previously recorded in contributed surplus is recorded as an increase to share capital.

The fair value of stock options issued to non-employees is re-measured at each reporting date until the consultant's performance or the amortization period is complete (which ever is shorter). Changes to the fair value are amortized over the remaining vesting period of the options.

(i) Per share amounts:

Basic per share amounts are computed by dividing period earnings or loss by the weighted average number of common shares outstanding during the period. Diluted amounts are computed using the treasury stock method. Under the treasury stock method, only "in the money" dilutive instruments impact the diluted calculations in computing diluted per share amounts.

(j) Joint interests:

Substantially all of the Company's operations are conducted jointly with others, and accordingly, the financial statements reflect only the Company's interests in such activities.

(k) Foreign currency translation:

The Company has petroleum exploration and development operations in Argentina. Operations in Argentina are considered "integrated foreign operations" for accounting purposes and the financial results are translated to Canadian dollars using the temporal method. Under the temporal method, foreign denominated monetary assets and liabilities are translated at the exchange rate prevailing at the period end; non-monetary assets, liabilities and related depletion, depreciation and accretion are translated at historic rates; and revenues and expenses are translated at the rate in effect at the time of the transaction. Foreign exchange gains or losses arising from the translation of these balances are included in net income in the period.

2. Significant accounting policies (continued):

(l) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingencies. These financial statements include amounts recorded for depletion, depreciation and accretion, asset retirement obligations and future income taxes in addition to assumptions used in the ceiling test calculation and unproved properties recoverability assessment, which are based on estimates of reserves, future production rates, oil and natural gas prices, future costs and other relevant assumptions. Accruals for revenues and expenses are based on estimates if actual results are not available and stock-based compensation amounts are calculated using certain assumptions as more fully described in note 8. Actual results could differ from the assumptions and estimates used in determining each of these amounts. In addition, the effect on the financial statements of changes in such estimates in future periods could be significant.

(m) Financial instruments

The Company recognizes a financial asset or liability when it becomes a party to the contractual provisions of a financial instrument. Financial assets and financial liabilities are initially measured at fair value. After initial recognition, financial assets and liabilities held for trading are measured at fair value with the unrealized gains and losses recorded in income, loans and receivables are carried at amortized cost, while all other financial assets and liabilities are subsequently measured at amortized cost using the effective interest method. Transaction costs on financial instruments are included in the fair value assessment of each financial asset and financial liability.

(n) Adoption of new accounting policies

On September 1, 2010 Crown Point early adopted CICA Handbook Section 1582, Business Combinations. Pursuant to this Standard, assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies are measured at their fair market values as at the date of acquisition. Costs incurred in such transactions are expensed.

On September 1, 2010 Crown Point early adopted Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests. Section 1601 provides guidance for the preparation of consolidated financial statements. The adoption of Section 1601 had no impact on the Company’s consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company does not have a non-controlling interest in a subsidiary in consolidated financial statements and therefore the adoption of Section 1602 had no effect on the Company’s consolidated financial statements.

3. 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 August 31, 2010 consolidated financial statements is as follows:

	Previously reported	Adjustment	Restated
Consolidated balance sheet:			
Deficit	$ (15,950,556)	$ (44,443)	$(15,994,999)
Contributed surplus at August 31, 2010	1,476,163	44,443	1,520,606
Consolidated statement of operations:			
Stock-based compensation	$ 449,111	$ 44,443	$ 493,554

There was no change to earnings per share as a result of the change in accounting policy.

4. Discontinued operations:

In August 2011, the Company completed the sale of all of its Canadian petroleum and natural gas properties for total cash proceeds of $427,500. As a result of the sale and disposal of the Company's Canadian cost center, the Company reclassified the property and equipment and asset retirement obligations associated with the Canadian property as at August 31, 2010 as separate assets and liabilities on the balance sheet. The Company recorded an impairment and reduced the carrying value by $180,876 at August 31, 2010.

The Company has reclassified its comparative figures to record the net income from discontinued operations as a separate item on the statement of operations.

4. Discontinued operations (continued):

The following table provides a summary of the income from discontinued operations for the years ended August 31, 2011 and 2010.

	2011	2010
Income from discontinued operations for the years ended August 31:		
Petroleum and natural gas revenues	$ 99,718	$ 300,110
Royalties	(7,563)	(21,350)
Operating costs	(43,975)	(140,868)
Depletion, depreciation and accretion	(31,815)	(110,020)
Gain on sale of Canadian property and equipment	446,213	587,879
Impairment	–	(180,876)
	$ 462,578	$ 434,875

The following table summarizes the gain on sale of Canadian property and equipment:

	2011	2010
Gain on sale for the years ended August 31:		
Cash proceeds	$ 427,500	$ 707,560
Asset retirement obligations	32,102	19,081
Net book value of property and equipment	(13,389)	(138,762)
Gain on sale of property and equipment	$ 446,213	$ 587,879

5. Business combination

On January 12, 2011, the Company completed the acquisition of CanAmericas (Argentina) Energy Ltd. ("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 at the date of closing and $50,000 in cash for 100% of the outstanding common shares of CanAmericas. The acquisition has been accounted for as a business combination whereby all of the assets acquired and liabilities assumed are recorded at fair value.

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

Consideration:		
Issue of 258,065 common shares	$	477,420
Cash		50,000
Total consideration	$	527,420
Allocated to:		
Cash	$	11,900
Accounts receivable		117,346
Property and equipment		909,957
Accounts payable		(480,746)
Asset retirement obligations		(31,037)
Net assets acquired	$	527,420

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 have been expensed in the statement of operations.

6. Property and equipment:

August 31, 2011	Cost	Accumulated depletion, depreciation and impairment	Net book value
Argentina:			
Petroleum and natural gas properties	$ 27,736,940	$ 2,113,770	$ 25,623,170
Other assets	267,056	22,997	244,059
Canada:			
Other assets	108,011	58,876	49,135
	$ 28,112,007	$ 2,195,643	$ 25,916,364

August 31, 2010	Cost	Accumulated depletion, depreciation and impairment	Net book value
Argentina:			
Petroleum and natural gas properties	$ 13,772,695	$ -	$ 13,772,695
Other assets	36,127	8,346	27,781
Canada:			
Other assets	92,167	18,999	73,168
	$ 13,900,989	$ 27,345	$ 13,873,644

At August 31, 2011, unproved costs of $10.2 million, including $5.3 million of undeveloped properties and $4.9 million of value added tax (“VAT”), have been excluded from the Argentina cost centre full cost pool for the depletion calculation. Future development costs of proved reserves of $4.5 million (2010 - $nil) have been included in the depletion calculation. All costs in 2010 were excluded from depletion as the Argentinean cost centre was in a development stage and did not have any proven reserves attributable to it.

During the year ended August 31, 2011 the Company sold Canadian oil and gas properties for total proceeds of $427,500 resulting in a gain of $ 446,213.

During the year ended August 31, 2010 the Company sold Canadian oil and gas properties for total proceeds of $707,560 resulting in a gain of $587,879.

6. Property and equipment (continued):

Petroleum and natural gas property impairment

In the year ended August 31, 2011, the Company performed a ceiling test on its property and equipment and an impairment charge of $nil (August 31, 2010 - $180,876) was recorded. The impairment test is calculated based on reserves prepared by the Company's independent engineering consultant for Canadian and Argentina properties using future prices for the years 2011 to 2015 as follows:

US dollars	2011	2012	2013	2014	2015
Argentina					
Crude oil $/bbl	$ 59.60	$ 65.00	$ 70.00	$ 71.75	$ 73.54

Subsequent to 2015, prices are expected to increase by approximately 2.5% per year.

7. Asset retirement obligations:

Asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. At August 31, 2011 the estimated total undiscounted amount of cash flows required to settle the Company's asset retirement obligations are approximately $1.1 million. These costs are expected to be incurred over the next 15 years. An average credit adjusted risk-free interest rate of 10% (2010 - 10%) and an inflation rate of 2% (2010 - 5%) was used to calculate the fair value of the asset retirement obligations in Argentina.

A reconciliation of the asset retirement obligations is provided below:

	2011	2010
Balance, beginning of year	$ 160,846	$ 44,293
Obligations incurred	104,766	160,846
Accretion expense	17,447	4,430
Obligations acquired (note 5)	31,037	–
Change in estimate	(65,786)	(19,321)
Related to discontinued operations (note 4)	–	(29,402)
Balance, end of year	$ 248,310	$ 160,846

8. Capital stock:

(a) Authorized:

Unlimited common shares without par value

Unlimited number of Class “A” preferred shares with $1 each par value – none issued

(b) Issued and outstanding:

Common shares	Number	Amount
Balance, August 31, 2009	18,690,459	$ 20,608,432
Private placements	6,055,170	4,541,378
Exercise of warrants	5,187,500	3,112,498
Exercise of options	420,000	121,600
Share issue expenses	–	(371,573)
Transfer on exercise of stock options	–	80,936
Balance, August 31, 2010	30,353,129	28,093,271
Private placements	21,992,917	39,342,139
Exercise of warrants	1,497,485	1,621,265
Exercise of options	370,000	189,350
Exercise of finders options	203,311	152,484
Purchase of CanAmericas (note 5)	258,065	477,420
Share issue expenses	–	(2,987,016)
Transfer on exercise of stock options and finders options	–	243,529
Balance August 31, 2011	54,674,907	$ 67,132,442

On March 10, 2011 the Company issued 12,825,000 common shares pursuant to a private placement bought deal financing at a price of $1.95 per share for gross proceeds of $25,008,750. Share issue costs of $1,674,460 were incurred as a part of the financing.

During December 2010 the Company issued 9,167,917 common shares pursuant to a private placement 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.

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 the credit has been recorded to private placements.

During the year ended August 31, 2010, the Company issued 5,187,500 common shares pursuant to the exercise of share purchase warrants at a price of $0.60 per share for gross proceeds of $3,112,498.

8. Capital stock (continued):

(b) Issued and outstanding (continued):

During the year ended August 31, 2010, the Company issued 5,924,850 units ("Units") at a price of $0.75 per Unit for gross proceeds of $4,443,638. The Company issued 130,320 Units in consideration of finders fees and commissions. Each Unit consists of one common share in the capital of the Company and one-half of one non-transferable share purchase warrant (each whole warrant a "Series A Warrant"), with each Series A Warrant entitling the holder to purchase one additional common share at a price of $1.00 for a period of two years from the date of closing of the private placement, provided that, in the event the closing price of the Company's shares, as traded on the TSX, is $1.50 or greater for a period of 20 consecutive trading days, the Company may give notice of an earlier expiry of the Series A Warrants, in which case they would expire 30 calendar days from the giving of such notice; provided further that, in the event a subscriber exercises any Series A Warrants during the term thereof, the Company will issue to that subscriber that number of Series B Warrants equal to the number of Series A Warrants exercised, with each Series B Warrant entitling the holder to purchase one additional common share at a price of $1.50 for a period of three years from the date of closing of the private placement, provided further that, in the event the closing price of the Company's shares, as traded on the TSX, is $2.00 or greater for a period of 20 consecutive trading days, the Company may give notice of an earlier expiry of the Series B Warrants, in which case they would expire 30 calendar days from the giving of such notice (see note 8(f)). The Units are subject to regulations governing private placement distributions, were sold with a four-month plus one day restriction period, during which time the shares were restricted from trading. The Company issued to certain finders 203,707 finders options valued at $120,199 where each finders option entitles the holder to purchase one finders unit at a price of $0.75 per finders unit for a period of two years from the closing date. Each finders unit has the same terms as the Units noted above.

One director purchased 50,000 Units at a price of $0.75 per Unit.

8. Capital stock (continued):

(c) Warrants

In connection with the financings during the 2011 year, the Company issued 203,311 warrants exercisable into common shares at an exercise price of $0.75 per warrant. A fair value of $0.61 per warrant was ascribed to the warrants based on the Black-Scholes calculation. Assumptions used in the Black-Scholes calculation included an expected life of 2 years, volatility of 182% and a risk free interest rate of 1.72%. The cost of the warrants has been recorded as share issue costs.

	Number	Exercise Price	
Balance, August 31, 2010	–	$	–
Warrants issued	203,311		0.75
Balance August 31, 2011	203,311	$	0.75

(d) 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:

	2011			2010		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Balance outstanding, beginning of year	2,440,000	$	0.85	1,720,000	$	0.55
Granted	1,355,000		1.95	1,140,000		1.12
Forfeited	(60,000)		1.22	-		-
Exercised	(370,000)		0.51	(420,000)		0.29
Balance outstanding, end of year	3,365,000	$	1.30	2,440,000	$	0.85

8. Capital stock (continued):

(d) Stock options (continued):

	2011			2010		
Balance exercisable, end of year	2,145,000	$	1.06	1,792,500	$	0.72

At August 31, 2011, the Company has 3,365,000 stock options outstanding with a weighted average remaining contractual life of 3.5 (2010 - 3.22) years.

Stock options outstanding and exercisable at August 31, 2011 are as follows:

Expiry date	Exercise price		Outstanding	Exercisable
December 15, 2011	$	0.70	100,000	100,000
March 6, 2012	$	0.89	100,000	100,000
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	533,333
June 24, 2015	$	1.22	50,000	33,333
March 18, 2016	$	1.96	1,205,000	401,667
June 9, 2016	$	1.98	100,000	33,333
August 3, 2016	$	1.70	50,000	16,667
			3,365,000	2,178,333

Stock-based compensation:

The Company accounts for its stock-based compensation using the fair value method. The fair value of each stock option is estimated using Black-Scholes options pricing model with the following weighted average assumptions at August 31, 2011: risk free interest rate of 2.51% (2010 - 2.53%), expected life of 5 years (2010 - 5 years), expected volatility of 103% (2010 - 104%) and 0% dividend yield (2010 - 0%) The grant date weighted average fair value of stock options granted for the year ended August 31, 2011 was $0.87 per option (2010 - $0.43 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.

8. Capital stock (continued):

(e) Finders options:

A summary of the finders options issued and outstanding during the years ended August 31, 2011 and 2010 is as follows:

	Number of options		Weighted average exercise price
Balance outstanding and exercisable, August 31, 2009	–	$	0.00
Granted	203,707		0.75
Balance outstanding and exercisable, August 31, 2010	203,707		0.75
Exercised	(203,311)		0.75
Balance outstanding and exercisable, August 31, 2011	396	$	0.75

The fair value of the finders options is estimated using the Black-Scholes option pricing model assuming a risk-free interest rate of 1.43%, expected dividend yield of 0%, expected stock volatility of 119.57% and an expected option life of two years.

(f) Share purchase warrants:

2007 Share purchase warrants

During the year ended August 31, 2010, the expiry date of warrants issued pursuant to private placements announced on February 5, 2007 and December 19, 2007 were extended from December 19, 2008 and February 5, 2009 to February 5, 2010, and the exercise price was reduced to $0.60. These warrants were subject to accelerated expiry to a period of 30 days in the event the closing market price of the Company's common shares on TSX, equals or exceeds $0.72 for 10 consecutive trading days. The aggregate fair value compensation cost of these warrant amendments in the amount of $41,754 was estimated using the Black-Scholes option pricing model with the following assumptions for the fair value of the original warrants at the date of the amendments and the fair value of the amended warrants at the date of the amendment, respectively:

- For warrants originally granted on December 19, 2007: risk-free interest rate of 1.79% dividend yield of nil and nil, volatility of 162% and 97%, and an expected life of 0.08 years and 1.22 years; and
- For warrants originally granted on February 5, 2007: risk-free interest rate of 1.79%, dividend yield of nil and nil, volatility of 126% and 97%, and an expected life of 0.22 years and 1.22 years.

8. Capital stock (continued):

(f) Share purchase warrants (continued):

As at August 31, 2011 and 2010, there were no 2007 Share purchase warrants remaining outstanding.

April 2010 Share purchase warrants

Share purchase warrants, issued in connection with the April 2010 Units, activity is summarized as follows:

	Class A warrant	Exercise price	Class B warrant	Exercise price
Balance, August 31, 2009	–	$ –	–	$ –
Issued May 5, 2010	3,027,585	1.00	–	–
Balance, August 31, 2010	3,027,585	1.00		
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

Upon exercise of a class A warrant, a class 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, 2013 to July 13, 2014.

Share purchase warrants outstanding are as follows:

Expiry date	Exercise price	August 31, 2011	August 31, 2010
May 5, 2012	$ 1.00	1,245,477	2,200,977
May 31, 2012	$ 1.00	599,839	792,608
June 11, 2012	$ 1.00	34,000	34,000
May 5, 2013	$ 1.50	866,994	–
May 31, 2013	$ 1.50	135,371	–
		2,881,681	3,027,585

A total combined fair value of $0.16 per class A and class B warrant was ascribed to the warrants based on the Black-Scholes calculation. Assumptions used in the Black-Scholes calculation included an expected life of 1 year (class B – 3 years), volatility of 102% (class B – 102%) and a risk free interest rate of 1.26% (class B – 1.26%).

The fair value of the warrants has been recorded in the same caption as the common shares issued.

9. Contributed surplus:

Balance, August 31, 2009	$ 987,789
Stock-based compensation	493,554
Finders options	120,199
Transfer on exercise of stock options	(80,936)
Balance, August 31, 2010	1,520,606
Stock-based compensation	1,478,359
Transfer on exercise of stock options and finders options	(243,529)
Balance August 31, 2011	$ 2,755,436

10. Per share amounts:

The weighted average number of shares for basic and diluted calculations for 2011 was 44,532,957 (2010 – 23,801,255). During the year ended August 31, 2011 and 2010, all options, finders options, warrants and share purchase warrants were excluded from the diluted earnings per share calculation as their effect was anti-dilutive.

11. Supplemental cash flow information:

Change in non-cash working capital items:

	2011	2010
Accounts receivable	$ (567,321)	$ (277,826)
Prepaid expenses	(368,068)	(183,393)
Accounts payable and accrued liabilities	1,454,010	1,798,627
Income taxes payable	–	(930,000)
Change in non-cash working capital	$ 518,621	$ 407,408

	2011	2010
Attributable to:		
Operating activities	$(1,117,187)	$ (922,946)
Discontinued operations	(129,979)	(266,503)
Investing activities	1,765,787	1,596,857
	$ 518,621	$ 407,408

11. Supplemental cash flow information (continued):

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

	2011	2010
Cash	$ 1,954,051	$ 1,622,635
Cash equivalents	25,276,274	146,866
	$ 27,230,325	$ 1,769,501

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
- Raise fixed or floating interest rate debt
- Consolidate outstanding common shares
- Farm-out existing exploration opportunities

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. As the Company is primarily in the exploration phase, certain quantitative measures used by industry peers, such as return on equity, return on capital employed and debt to equity ratios, are not relevant measures for the Company.

12. Financial risk management and capital management (continued):

(a) Capital management (continued):

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 and accounts receivable.

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 accounts receivable are exposed to the risk of financial loss if the counterparty fails to meet its contractual obligations. The Company's accounts receivable includes 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 accounts receivable represents the Company's maximum credit exposure. The Company does not record an allowance for doubtful accounts and has not written off any accounts receivable in the year ended August 31, 2011 and 2010.

As at August 31, 2011 and August 31, 2010, the Company's trade and other receivables are aged as follows:

($000s)	**August 31, 2011**	**August 31, 2010**
Not past due (less than 90 days)	$ 925,521	$ 348,157
Past due (more than 90 days)	151,905	-
Total receivables	$ 1,077,426	$ 348,157

(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 August 31, 2011 the Company has working capital (deficiency) of $24,405,427 (2010 - ($186,069)) which given planned capital expenditures, administrative overhead requirements and commitments, is sufficient to meet all current financial obligations in the upcoming year.

12. Financial risk management and capital management (continued):

(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 $272,467 (2010 – $1,467) decrease or increase to net loss, respectively.

(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.

(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 year.

Market risk	Change in market factor	Increase (decrease) in loss before tax
Foreign exchange - effect of strengthening CAD$:		
USD denominated financial assets and liabilities	5%	$ 33,083
ARS denominated financial assets and liabilities	5%	$ 192,919

12. Financial risk management and capital management (continued):

(v) Fair value of financial instruments:

The Company's financial instruments include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities, the carrying values of which approximate their fair values due to their short-term nature. The Company has no bank indebtedness.

Cash and cash equivalents are categorized as held-for-trading assets and are measured at fair value with any change in fair value recognized in net loss during the period. Accounts receivable are categorized as loans and receivables and accounts payable and accrued liabilities are categorized as other financial liabilities; all of which are recorded at amortized cost.

The following table provides information on the foreign currency denominated financial instruments held by the Company at August 31, 2011:

	Balance denominated in		Total CAD
	USD	ARS	equivalent
Cash and cash equivalents	$ 7,920	$ 7,734,883	$ 1,716,385
Accounts receivable	898,053	585,033	1,007,888
Accounts payable and accrued liabilities	1,671,863	12,178,306	4,325,939

13. Income taxes:

The reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

Years ended August 31	2011	2010
Statutory tax rate	27%	29%
Income tax expense (reduction) computed at statutory rates	$(1,145,064)	$ (469,218)
Stock-based compensation	399,157	130,243
Non-deductibles and other	(259,903)	(38,678)
Effect of tax rate changes and other	11,535	(112,351)
Effect of loss carried back to prior year	–	(29,000)
Change in valuation allowance	934,003	397,726
Foreign exchange	216,731	–
Foreign statutory rate difference	(115,459)	–
Income tax expense (reduction)	$ 41,000	$ (67,178)

13. Income taxes (continued):

The components of the net future income tax assets are as follows:

As of August 31	2011	2010
Future income tax assets (liabilities):		
Non-capital losses carried forward	$ 2,189,456	$ 1,310,339
Petroleum and natural gas properties and equipment	1,467,647	(518,425)
Share issue costs	746,437	30,463
Foreign exchange and other	218,118	–
Valuation allowance	(4,621,658)	(781,377)
Future income tax assets	$ –	$ 41,000

At August 31, 2011 the Company had approximately $4.2 million and $3.6 million of non-capital losses in Canada and Argentina respectively (2010 - $0.1 million and $3.1 million) available to reduce future taxable income. The Canadian non-capital losses expire at various times between 2016 and 2031. Argentina non-capital losses have a five year life and will expire between 2012 and 2017.

14. Related party transactions:

The Company paid or accrued $nil (2010 - $32,000) for management fees and $nil (2009 - $3,200) for office rent to a company controlled by the Company's chairman.

The above transaction is measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

15. Segmented information:

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

	2011	2010
Assets		
Canada	$ 25,673,837	$ 1,869,673
Argentina	29,164,425	14,476,614
	$ 54,838,262	$ 16,346,287

15. Segmented information:

		2011		2010
Liabilities				
Canada	$	190,532	$	178,355
Argentina		4,574,249		2,549,054
	$	4,764,781	$	2,727,409
Revenues				
Canada	$	–	$	–
Argentina		3,839,359		–
	$	3,839,359	$	–
Loss from continuing operations				
Canada	$	2,558,692	$	1,303,374
Argentina		1,723,284		726,762
	$	4,281,976	$	2,030,136

All of the Company's revenues come from one customer in Argentina.

16. Commitments:

As at August 31, 2011, the Company is committed to future payments for office space rental and a proportionate share of operating costs through 2012 as follows:

2011 (remaining)	$	17,749
2012		35,598
Total	$	53,347

As of August 31, 2011 the Company had no outstanding material work commitments in any areas of its operations as all of its significant obligations are discretionary. However, the Company does have a US$6.75 million working commitment over a three year period with respect to the Cerro De Los Leones Concession which will commence, following the receipt by the Company of the necessary environmental permits, in its planned 3-D and 2-D seismic program. If the Company fails to make the necessary expenditures during such period, it will surrender all of the land.

16. Commitments (continued):

The Company is also waiting on environmental permits on the Laguna de Piedra and Cañadón Ramirez concessions. If and when these permits are received, the Company would be committed to spending US$0.8 million and US$1.5 million over the following 12 months from the date of receipt on the concessions, respectively.

The Company currently does not foresee any issues in meeting these commitments if and when they become active, as the Company has sufficient cash on hand.

17. Subsequent event:

The Company closed a short-form prospectus bought deal equity financing on December 15, 2011 and issued a total of 13,774,900 common shares of the Company pursuant to the offering at a price of $0.95 per common share for gross proceeds of $13,086,155.