



**Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended February 28, 2013
(Unaudited)
(Expressed in Canadian Dollars)**

**Notice of No Auditor Review of
Interim Condensed Consolidated Financial Statements**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor. The accompanying unaudited interim consolidated financial statements of Eagleford Energy Inc. (the "Company") have been prepared by and are the responsibility of the management of the Company. The Company's independent auditor has not performed a review of these unaudited interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants.

Interim Condensed Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

Unaudited	February 28, 2013	August 31, 2012
Assets		
Current assets		
Cash and cash equivalents	\$ 477,633	\$ 330,003
Marketable securities (Note 6)	1	1
Trade and other receivables	49,716	17,525
Total current assets	<u>527,350</u>	<u>347,529</u>
Non-current assets		
Property and equipment (Note 8)	167,780	175,000
Exploration and evaluation assets (Note 7)	8,967,977	8,475,487
Total non-current assets	<u>9,135,757</u>	<u>8,650,487</u>
Total Assets	<u>\$ 9,663,107</u>	<u>\$ 8,998,016</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Trade and other payables	\$ 1,386,440	\$ 1,039,959
Secured note payable (Note 12)	987,360	946,848
Shareholders loans (Note 11)	2,258,552	2,179,778
Provisions (Note 9)	64,590	-
Total current liabilities	<u>4,696,942</u>	<u>4,166,585</u>
Non-current liabilities		
Derivative warrant liabilities (Note 13)	1,959,426	1,640,406
Provisions (Note 9)	291,862	240,672
Total non-current liabilities	<u>2,251,288</u>	<u>1,881,078</u>
Total Liabilities	<u>6,948,230</u>	<u>6,047,663</u>
Shareholders' Equity		
Share capital (Note 10)	6,072,641	5,906,633
Share purchase warrants (Note 10)	1,422,526	1,422,526
Share purchase options (Note 10)	170,972	170,972
Contributed surplus (Note 10)	506,200	506,200
Foreign currency translation reserve	80,657	(109,463)
Deficit	(5,538,119)	(4,946,515)
Total shareholders' equity	<u>2,714,877</u>	<u>2,950,353</u>
Total Liabilities and Shareholders' Equity	<u>\$ 9,663,107</u>	<u>\$ 8,998,016</u>

Going Concern (Note 1)

Related Party Transactions and Balances (Note 11)

Commitments and Contingencies (Note 16)

See accompanying notes to the interim condensed consolidated financial statements



Interim Condensed Consolidated Statement of Operations and Comprehensive Loss
(Expressed in Canadian Dollars)
Unaudited

	Three Months Ended		Six Months Ended	
	February 28	February 29	February 28	February 29
	2013	2012*	2013	2012*
Revenue				
Natural gas sales, net of royalties	\$ 9,787	\$ 8,376	\$ 19,685	\$ 20,180
Expenses				
Operating costs	2,566	10,674	5,800	19,322
Depletion and accretion	4,226	4,977	8,379	9,877
General and administrative	172,606	103,466	344,766	145,172
Interest expense	20,014	20,235	40,816	36,272
Loss (gain) on foreign exchange	111,369	(115,884)	125,722	36,355
Loss on derivative warrant liabilities (Note 13)	67,251	2,845	79,378	71,948
Loss on settlement of debt (Note 10)	-	1,448,361	-	1,464,899
Marketing and public relations	6,428	-	6,428	44,285
	<u>384,460</u>	<u>1,474,674</u>	<u>611,289</u>	<u>1,828,130</u>
Net loss	(374,673)	(1,466,298)	(591,604)	(1,807,950)
Foreign currency translation	159,531	(77,773)	190,120	(99,143)
Comprehensive loss	\$ (215,142)	\$ (1,544,071)	\$ (401,484)	\$ (1,907,093)
Loss per share, basic and diluted	\$ (0.004)	\$ (0.020)	\$ (0.006)	\$ (0.026)
Weighted average shares outstanding, basic and diluted**	98,957,457	73,483,410	98,659,142	70,464,382

*See Note 17 for explanations relating to comparative figures

**Reflects the March 16, 2012 two-for-one stock split (Refer to Note 10)

See accompanying notes to the interim condensed consolidated financial statements



Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

Unaudited

	SHARE CAPITAL Number of Shares *	SHARE CAPITAL Amount	SHARE PURCHASE WARRANTS	SHARE PURCHASE OPTIONS	CONTRI- BUTED SURPLUS	FOREIGN CURRENCY TRANSLATION RESERVE	DEFICIT	TOTAL SHAREHOLDERS' EQUITY
		\$	\$	\$	\$	\$	\$	\$
Balance, August 31, 2011	67,122,743	4,635,556	252,637	-	85,737	(109,303)	(2,137,327)	2,727,300
Issuance of shares as debt settlement	3,107,006	395,589	-	-	-	-	-	395,589
Imputed interest	-	-	-	-	2,334	-	-	2,334
Issuance of units as debt settlement	17,150,000	1,150,367	1,102,348	-	-	-	-	2,252,715
Private placement of units	2,000,000	32,459	67,541	-	-	-	-	100,000
Warrants expired	-	-	-	-	179,113	-	-	179,113
Foreign currency translation	-	-	-	-	-	(99,143)	-	(99,143)
Net loss	-	-	-	-	-	-	(1,807,950)	(1,807,950)
Balance, February 29, 2012	89,379,749	6,213,971	1,422,526	-	267,184	(208,446)	(3,945,277)	3,749,958
Private placement of units	3,000,000	342,786	-	-	-	-	-	342,786
Compensation expense on re-pricing units	750,000	-	-	-	118,507	-	-	118,507
Private placement of units	6,825,000	702,528	-	-	-	-	-	702,528
Issuance of shares as debt settlement	171,386	44,547	-	-	-	-	-	44,547
Warrants expired	-	-	-	-	139,439	-	-	139,439
Stock based compensation	-	-	-	170,972	-	-	-	170,972
Units cancelled	(3,418,468)	(1,397,199)	-	-	(18,930)	-	-	(1,416,129)
Foreign currency translation	-	-	-	-	-	98,983	-	98,983
Net loss	-	-	-	-	-	-	(1,001,238)	(1,001,238)
Balance, August 31, 2012	96,707,667	5,906,633	1,422,526	170,972	506,200	(109,463)	(4,946,515)	2,950,353
Private placement of units	2,249,790	166,008	-	-	-	-	-	166,008
Foreign currency translation	-	-	-	-	-	190,120	-	190,120
Net loss	-	-	-	-	-	-	(591,604)	(591,604)
Balance, February 28, 2013	98,957,457	6,072,641	1,422,526	170,972	506,200	80,657	(5,538,119)	2,714,877

* Reflects the March 16, 2012 two-for-one stock split (Refer to Note 10)

See accompanying notes to the interim condensed consolidated financial statements



Interim Condensed Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
Unaudited

	Six Months Ended	
	February 28	February 29
	2013	2012*
Cash provided by (used in)		
Operating activities		
Net loss for the period	\$ (591,604)	\$ (1,807,950)
Items not involving cash:		
Depletion and accretion	8,379	9,877
Unrealized loss derivative warrant liabilities	79,378	71,948
Provisions	115,781	64,811
Shares and warrants issued for services	-	44,285
Loss on settlement of debt	-	1,464,899
Imputed interest	-	2,334
Net changes in non-cash working capital (Note 15)	314,291	(99,675)
	<u>(73,775)</u>	<u>(249,471)</u>
Investing activities		
Additions to exploration and evaluation assets	(280,356)	(374,489)
Financing activities		
Private placement of units, net of share issue costs	405,650	100,000
Secured notes payable, net	40,512	(73,380)
Shareholders' loans, net	78,774	495,173
	<u>524,936</u>	<u>521,793</u>
Effect of exchange rate changes on cash and cash equivalents	(23,175)	(5,407)
Increase (decrease) in cash and cash equivalents for the period	147,630	(107,574)
Cash and cash equivalents, beginning of period	330,003	165,266
Cash and cash equivalents, end of period	\$ 477,633	\$ 57,692

*See Note 17 for explanations relating to comparative figures
Supplemental Cash Flow Information and Non Cash Transactions (Note 15)

See accompanying notes to the interim condensed consolidated financial statements

**Notes to Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended February 28, 2013 and February 29, 2012
(Expressed In Canadian Dollars) (Unaudited)**

1. Nature of Business and Going Concern

Eagleford Energy Inc. ("Eagleford" or the "Company") was amalgamated under the Business Corporations Act (*Ontario*) on November 30, 2009. The principal activities of the Company consist of exploration, development and production of petroleum and natural gas properties. In addition, the Company holds a 0.3% net smelter return royalty on 8 mining claim blocks located in Red Lake, Ontario which is carried on the consolidated statement of financial position at nil.

The company's registered office is 1 King Street West, Suite 1505, Toronto, Ontario, M5H 1A1.

The Company's common shares trade on the Over-the-Counter Bulletin Board (OTCBB) under the symbol EFRDF.

These unaudited interim condensed consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The Company plans to obtain additional financing by way of debt or the issuance of common shares or some other means to service its current working capital requirements, any additional or unforeseen obligations or to implement any future opportunities. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. These unaudited consolidated financial statements do not include any adjustments for this uncertainty.

The Company has accumulated significant losses and negative cash flows from operations in recent years which raise doubt as to the validity of the going concern assumption. At February 28, 2013, the Company had a working capital deficiency of \$4,169,592 (August 31, 2012: \$3,819,056) and an accumulated deficit of \$5,538,119 (August 31, 2012 \$4,946,515). The Company does not have sufficient funds to meet its liabilities for the ensuing twelve months as they fall due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company's ability to continue operations and fund its liabilities is dependent on its ability to secure additional financing and cash flow. During the six months ended February 28, 2013 the Company raised net proceeds of \$405,650 through the issuance of share capital (year ended August 31, 2012: \$2,086,718). Management is pursuing such additional sources of financing and cash flow to fund its operations and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements.

2. Basis of Preparation

Statement of Compliance

These unaudited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These unaudited condensed consolidated financial statements of the Company were approved by the Board of Directors on April 19, 2013.

Basis of Preparation

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook").

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (the "IASB").

The accounting policies applied in these unaudited interim condensed consolidated financial statements are based on IFRS effective for the period ended February 28, 2013, as issued and outstanding as of the date the Board of Directors approved the statements.

Principles of Consolidation

Subsidiaries are all entities (including special purpose entities) controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

**Notes to Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended February 28, 2013 and February 29, 2012
(Expressed In Canadian Dollars) (Unaudited)**

The consolidated financial statements include the accounts of Eagleford, the legal parent, together with its wholly-owned subsidiaries, 1354166 Alberta Ltd. an Alberta operating company ("1354166 Alberta") and Dyami Energy LLC a Texas limited liability company ("Dyami Energy"). All Intercompany balances and transactions have been eliminated on consolidation.

3. Significant Accounting Policies

These unaudited interim condensed consolidated financial statements were prepared using the same accounting policies and methods as those described in our consolidated financial statements for the year ended August 31, 2012. These unaudited interim condensed consolidated financial statements are prepared in compliance with International Accounting Standard 34, Interim Financial Reporting (IAS 34). Accordingly, certain information and disclosure normally included in annual financial statements prepared in accordance with International Reporting Standards have been omitted or condensed. These condensed interim financial statements should be read in conjunction with our consolidated financial statements for the year ended August 31, 2012.

4. Recent Accounting Pronouncements

All accounting standards effective for periods on or after January 1, 2011 have been adopted as part of the transition to IFRS. The following are new IFRS pronouncements that have been issued, although not yet effective and have not been early adopted, and may have an impact on the Company in the future as discussed below.

IFRS 7, "Financial Instruments": Disclosures", which requires disclosure of both gross and net information about financial instruments eligible for offset in the statement of financial position and financial instruments subject to master netting agreements. Concurrent with the amendments to IFRS 7, the IASB also amended IAS 32, "Financial Instruments: Presentation" to clarify the exiting requirements for offsetting financial instruments in the statement of financial position. The amendments to IAS 32 are effective as of January 1, 2014. The Company does not expect to have a significant impact on its consolidated financial statements.

IFRS 10, "Consolidated Financial Statements" replaces the consolidation requirements of SIC-12 Consolidation Special Purpose Entities and IAS 27 "Consolidated Separate Financial Statements". It introduces a new principle-based definition of control, applicable to all investees to determine the scope of consolidation. The standard provides the framework for consolidated financial statements and their preparation based on the principle of control. This new standard is effective for the Company's Interim and Consolidated financial statements commencing September 1, 2013. The Company does not expect to have a significant impact on its consolidated financial statements.

IFRS 11 "Joint Arrangements" which replaces IAS 31, "Interests in Joint Ventures". IFRS 11 divides joint arrangements into two types, each having its own accounting model. A "joint operation" continues to be accounted for using proportionate consolidation, whereas a "joint venture" must be accounted for using equity accounting. This differs from IAS 31, where there was the choice to use proportionate consolidation or equity accounting for joint ventures. A "joint operation" is defined as the joint operators having rights to the assets, and obligations for the liabilities, relating to the arrangement. In a "joint venture", the joint ventures partners have rights to the net assets of the arrangement, typically through their investment in a separate joint venture entity. This new standard is effective for the Company's Interim and Consolidated financial statements commencing September 1, 2013. The Company does not expect to have a significant impact on its consolidated financial statements.

IFRS 12 "Disclosure of Interests in Other Entities" is a new standard, which combines all of the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities. This new standard is effective for the Company's Interim and Consolidated financial statements commencing September 1, 2013. The Company does not expect to have a significant impact on its consolidated financial statements.

IFRS 13 "Fair Value Measurement" replaces the fair value guidance contained in individual IFRS with a single source of fair value measurement guidance. The standard also requires disclosures which enable users to assess the methods and inputs used to develop fair value measurements. This new standard is effective for the Company's Interim and Consolidated financial statements commencing September 1, 2013. The Company does not expect to have a significant impact on its consolidated financial statements.

IFRIC 20 (an update provided by the IFRS Interpretations Committee ("IFRIC")) provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining when two benefits accrue to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. IFRIC 20 is applicable for annual periods beginning on or after January 1, 2013 and early application is permitted. The Company does not expect to have a significant impact on its consolidated financial statements.

**Notes to Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended February 28, 2013 and February 29, 2012
(Expressed In Canadian Dollars) (Unaudited)**

IAS 1 "Presentation of Financial Statements" was amended by the IASB in September 2011 in order to align the presentation of items in comprehensive income with US GAAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. This new standard is effective for the Company's Interim and Consolidated financial statements commencing September 1, 2013. The Company does not expect to have a significant impact on its consolidated financial statements.

IAS 27 "Separate Financial Statements". In May 2011, the IASB amended IAS 27, Separate Financial Statements ("IAS 27"). This amendment removes the requirements for consolidated statements from IAS 27, and moves it over to IFRS 10 "Consolidated Financial Statements". The amendment mandates that when a company prepares separate financial statements, investment in subsidiaries, associates, and jointly controlled entities are to be accounted for using either the cost method or in accordance with IFRS 9 "Financial Instruments". In addition, this amendment determines the treatment for recognizing dividends, the treatment of certain group reorganizations, and some disclosure requirements. This amendment is effective for the Company's interim and annual consolidated financial statements commencing September 1, 2013. The Company is assessing the impact of this amended standard on its consolidated financial statements.

IAS 28 "Investments in Associates and Joint Ventures". In May 2011, the IASB amended IAS 28, investments in Associates and Joint Ventures ("IAS 28"). This amendment requires any retained portion of an investment in an associate or joint venture that has not been classified as held for sale to be measured using the equity method until disposal. After disposal, if the retained interest continues to be an associate or joint venture, the amendment requires for it to be continued to be accounted for under the equity method. The amendment also disallows the re measurement of any retained interest in an investment upon the cessation of significant influence or joint control. This amended standard is effective for the Company's interim and annual consolidated financial statements commencing September 1, 2013. The Company is assessing the impact of this amended standard on its consolidated financial statements.

IFRS 9 "Financial Instruments". In October 2010, the IASB issued IFRS 9, Financial Instruments ("IFRS 9"). IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's interim and annual consolidated financial statements commencing September 1, 2015. The Company is assessing the impact of this new standard on its consolidated financial statements.

5. Segmented Information

The Company's reportable and geographical segments are Canada and the United States. The accounting policies used for the reportable segments are the same as the Company's accounting policies.

For the purposes of monitoring segment performance and allocating resources between segments, the Company's executive officer monitors the tangible, intangible and financial assets attributable to each segment.

All assets are allocated to reportable segments. The following tables show information regarding the Company's reportable segments.

February 28, 2013	Three Months Ended			Six Months Ended		
	Canada	United States	Total	Canada	United States	Total
Net revenue	\$9,787	-	\$9,787	\$19,685	-	\$19,685
Net loss	\$361,219	\$13,454	\$374,673	\$485,749	\$105,855	\$591,604

February 29, 2012	Three Months Ended			Six Months Ended		
	Canada	United States	Total	Canada	United States	Total
Net revenue	\$8,376	-	\$8,376	\$20,180	-	\$20,180
Net loss	\$1,462,401	\$3,897	\$1,466,298	\$1,799,792	\$8,158	\$1,807,950

As at February 28, 2013	Canada	United States	Total
Total Assets	\$2,802,784	\$6,860,323	\$9,663,107
Total Liabilities	\$6,186,109	\$762,121	\$6,948,230

As at August 31, 2012	Canada	United States	Total
Total Assets	\$3,983,791	5,014,225	\$8,998,016
Total Liabilities	\$5,478,773	568,890	\$6,047,663

**Notes to Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended February 28, 2013 and February 29, 2012
(Expressed In Canadian Dollars) (Unaudited)**

6. Marketable Securities

	<u>February 28, 2013</u>
Investments in quoted company security (August 31, 2012 - \$1)	<u>\$1</u>

7. Exploration and Evaluation Assets

Cost	
Balance August 31, 2011	\$8,995,878
Additions	1,559,763
Units cancelled	(2,091,616)
Decommissioning obligations	41,243
Change in decommissioning obligation estimates	6,546
Foreign exchange	(36,327)
Balance August 31, 2012	8,475,487
Additions	280,356
Change in decommissioning obligation estimates	(2,405)
Foreign exchange	214,539
Balance February 28, 2013	<u>\$8,967,977</u>

The Company's exploration and evaluation assets are located in Texas, USA. As at February 28, 2013 and August 31, 2012 no impairment loss was recorded. For the six months ended February 28, 2013 the Company capitalized interest of \$122,444 to exploration and evaluation assets (Year ended August 31, 2012: \$289,650).

Dyami Energy holds a 75% working interest before payout and a 61.50% working interest after payout of production revenue of \$12.5 million and Eagleford holds a 10% working interest before payout and a 7.5% working interest after payout of production revenue of \$15 million in a mineral lease comprising approximately 2,629 gross acres of land in Zavala County, Texas. The royalties payable under the Matthews lease are 25%.

The Matthews Oil and Gas Lease had a primary term of three years commencing April 1, 2008, unless commercial production is established from a well or lands pooled therewith or the lessee is then engaged in actual drilling or reworking on any well within 90 days thereafter. The lease shall remain in force so long as the drilling or reworking is processed without cessation of more than 90 days. Once production is established, the lease is held by production so long as a new well is commenced within 180 days of completion of the prior well, which is defined as 15 days following reaching total depth in a well or the total length of a horizontal well.

Matthews Lease Litigation

The lessor of the Matthews lease expressed their belief that the lease has terminated and filed a petition in the District Court, Zavala County, Texas, seeking a declaration that the lease has terminated. The Company disagrees and believes that it is in full compliance with the terms of the lease. The Company is defending the allegation and countersuing the lessor for repudiation of the lease and seeking damages.

The Company elected to conduct the continuous drilling program provision of the lease in order to extend the term of the lease beyond its primary term. The Company commenced actual drilling operations on a well, within the 180 day time period allowed and defined in the amended lease in every such period since the end of the primary term.

In March 2012, the Company notified the lessor of its intention to continue drilling the No. 2-H well initiated in October 2011 and suspended, and to drill a new well, the 4-H under the continuous-drilling program.

Upon receipt of this notice, and before the 180-day deadline to commence actual drilling operations expired, the lessor informed the Company that it was taking the position that the lease had terminated because the Company allegedly failed to drill the No. 2-H well in a good faith attempt to secure production, and thus failed to comply with the continuous drilling program. The lessor later added that the Company was 2 days late having a drill bit contact the surface of the earth and turn to the right. Based on the Company's extensive logging, coring, and laboratory work and analysis, the Company was highly confident that these wells would produce in commercial quantities, which would have benefitted the lessor and the other royalty owner, and would have allowed the Company to begin to recoup its investment in the lease. Extended development drilling would have followed. Accordingly the Company is seeking specific performance or damages from the lessors.

**Notes to Interim Condensed Consolidated Financial Statements
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(Expressed In Canadian Dollars) (Unaudited)**

As at February 28, 2013 and August 31, 2012, no amounts of contingent loss due to the impairment of the above mentioned lease have been recorded in these consolidated financial statements. According to the Company's legal counsel, there are no dispositive motions pending, a trial date has not been set and in their opinion it is not possible to evaluate the likelihood of an unfavorable outcome or the amount or range of potential loss.

At February 28, 2013 the Company carries its investment in the Matthews lease at approximately \$4,836,929 (August 31, 2012: \$4,645,534). If the final outcome of such claim differs adversely from that expected, it would result in an impairment loss equal to the carrying value of the Matthews lease, when determined.

Murphy Lease, Zavala County, Texas, USA

Dyami Energy holds a 100% working interest in a mineral lease comprising approximately 2,637 acres of land in Zavala County, Texas (the "Murphy Lease") subject to a 10% carried interest on the drilling costs from surface to base of the Austin Chalk formation, and a 3% carried interest on the drilling costs from the top of the Eagle Ford shale formation to basement on the first well drilled into a serpentine plug and for the first well drilled into a second serpentine plug, if discovered. Thereafter Dyami Energy's working interests range from 90% to 97%. The royalties payable under the Murphy Lease are 25%.

Dyami Energy is required to drill a well every six months in order to maintain the Murphy Lease. In the event that after the Primary Term as extended by operations no production is obtained or the value of the royalty received by the Lessor does not equal as much as the product of the total number of net mineral acres times \$25.0 per net acre Lessee shall pay to the Lessor the difference between such product and the value of the royalty received and \$25.0 per net mineral acre at the end of such lease year ("Minimum Royalties"). Payment of Minimum Royalties shall not extend the Lease for more than 2 years in the aggregate. Three years after the cessation of continuous drilling, all rights below the deepest producing horizon in each unit then being held by production, shall be released and re-assigned to the Lessor, unless the drilling of another well has been proposed on said unit, approved in writing by Lessor, and timely commenced.

8. Property and Equipment

	Petroleum and Natural Gas Properties
Cost or deemed cost	
Balance August 31, 2011	\$314,302
Change in decommissioning obligation estimates	819
Balance August 31, 2012	315,121
Change in decommissioning obligation estimates	(266)
Balance February 28, 2013	\$314,855
Accumulated depletion and impairment	
Balance August 31, 2011	\$(71,302)
Depletion	(18,045)
Impairment	(50,774)
Balance August 31, 2012	(140,121)
Depletion	(6,954)
Balance February 28, 2013	\$(147,075)
Carrying Value	
At August 31, 2011	\$243,000
At August 31, 2012	\$175,000
At February 28, 2013	\$167,780

As at and for the six months ended February 28, 2013 no general and administrative costs were capitalized (Year ended August 31, 2012: Nil). For the year ended August 31, 2012 the Company recorded an impairment loss of \$50,774 on its Alberta, Canada property as a result of an evaluation prepared by an independent reserves evaluator based on future pre-tax cash flows of the proved and probable reserves using forecast prices and discounted by 10%.

For the six months ended February 28, 2013 the Company did not record any impairment loss.

Alberta, Canada

The Company has a 0.5% non convertible gross overriding royalty in a natural gas well located in the Haynes area of Alberta and a 5.1975% interest in a natural gas unit located in the Botha area of Alberta, Canada.

**Notes to Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended February 28, 2013 and February 29, 2012
(Expressed In Canadian Dollars) (Unaudited)**

9. Provisions

	Decommissioning Provisions (Note a)	Other Provisions (Note b)	Total Provisions
Balance, August 31, 2011	\$64,688	\$61,144	\$125,832
Accretion expense	2,464		2,464
Additions	41,243	64,866	106,109
Change in estimate	7,365		7,365
Foreign exchange	(1,005)	(93)	(1,098)
Balance, August 31, 2012	114,755	125,917	240,672
Accretion expense	1,423	-	1,423
Additions	-	174,019	174,019
Reductions		(66,712)	(66,712)
Change in estimate	(2,671)	-	(2,671)
Foreign exchange	4,334	5,387	9,721
Balance February 28, 2013	\$117,841	\$238,611	\$356,452
Current		(\$64,590)	(\$64,590)
Non-Current	\$117,841	\$174,021	\$291,862

a) Decommissioning Obligations

The Company's decommissioning obligations result from its ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of decommissioning obligations to be \$117,841 at February 28, 2013 (August 31, 2012: \$114,755) based on an undiscounted total future liability of \$162,893 (August 31, 2012: \$158,974). These payments are expected to be incurred between fiscal 2022 and 2031. The discount factor, being the risk free rate related to the liability is 2.53% (August 31, 2012: 2.37%).

b) Other Provisions

In May 2012 a vendor of Dyami Energy filed a claim in the District Court of Harris County, Texas seeking payment of US\$64,866. Dyami Energy is disputing the amount charged due to faulty equipment. The full amount of the provision which was accrued in the prior period has been reversed in the current period as the vendor is no longer in good standing as a Texas corporation and the vendor's attorney filed in the District Court of Harris County, Texas a motion to withdraw as counsel.

In February 2013, a vendor of Dyami Energy filed a claim in the District Court of Zavala County, Texas (Case No. 13-02-12941-ZCV) seeking payment of US\$169,196 for services. Dyami Energy is disputing the amount on the basis of negligence by the vendor. The Company intends on filing a counter claim. The full amount of the provision has been recorded and any legal costs will be expensed as incurred. The outcome of this claim is uncertain at this time.

The above amounts have been classified as long term, however not discounted as the impact to the consolidated financial statements is immaterial.

In December 2011, a vendor of Dyami Energy filed a claim in the District Court of Harris County, Texas (Case No. 2011-74035/Court: 113) seeking payment of US\$62,800. Dyami Energy is disputing the claim on the basis of excessive charges. A trial date has been set for May 13, 2013. The full amount of the provision has been recorded and any legal costs will be expensed as incurred. The outcome of this claim is uncertain at this time.

The above amount has been classified as current.

10. Share Capital and Reserves

On March 16, 2012, the Company completed a 2-for-1 stock split, pursuant to which one (1) newly-issued share of the Company's common stock was issued to each holder of a share of common stock as of the close of business. The forward stock split has been applied retrospectively for all periods presented.

Authorized:

Unlimited number of common shares

Unlimited non-participating, non-dividend paying, voting redeemable preference shares

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Issued:

The following table sets out the changes in common shares during the respective periods:

Common Shares	Number*	Amount
Balance August 31, 2011	67,122,743	\$4,635,556
Debt settlement (note a)	3,107,006	395,589
Debt settlement (note b)	6,000,000	522,856
Debt settlement (note c)	11,150,000	627,511
Private placement (note d)	2,000,000	32,459
Private placement (note e)	3,750,000	342,786
Private placement (note f)	6,825,000	702,528
Debt settlement (note g)	171,386	44,547
Cancelled (note h)	(3,418,468)	(1,397,199)
Balance August 31, 2012	96,707,667	5,906,633
Private placement (note i)	2,249,790	166,008
Balance February 28, 2013	98,957,457	\$6,072,641

* Reflects the March 16, 2012 two-for-one stock split

The following table sets out the changes in warrants during the respective periods:

Warrants	February 28, 2013		August 31, 2012	
	Number of Warrants*	Weighted Average Price*	Number of Warrants*	Weighted Average Price*
Outstanding, beginning of period	40,200,948	\$0.04	21,050,948	\$0.04
Debt settlement (note b)			6,000,000	
Debt settlement (note c)			11,150,000	
Private placement (note d)			2,000,000	
Balance, end of period	40,200,948	\$0.04	40,200,948	\$0.04

* Reflects the March 16, 2012 two-for-one stock split

(a) During the year ended August 31, 2012, the Company issued 3,107,006 common shares as full settlement of interest due on shareholders' loans in the amount of \$325,903. The amount allocated to common shares based on fair value was \$395,589 and \$69,686 was recorded as a loss on settlement of debt in the statement of operations and comprehensive loss.

(b) On January 24, 2012, the Company converted shareholders' loans in the aggregate amount of \$300,000 through the issuance of a total of 6,000,000 units in the capital of the Company at \$0.05 per unit. Each unit is comprised of one (1) common share and one (1) purchase warrant exercisable until January 24, 2015 to purchase one (1) additional common share of the Company at a purchase price of \$0.05 per share. The fair value of the common shares issued on the settlement date was \$522,856 and the amount allocated to warrants based on relative fair value using the Black Scholes model was \$507,038 and \$729,894 was recorded as a loss on settlement of debt.

(c) On February 17, 2012, the Company converted debt and shareholders' loans in the aggregate amount of \$557,500 through the issuance of a total of 11,150,000 units in the capital of the Company at of \$0.05 per unit. Each unit is comprised of one (1) common share and one (1) purchase warrant exercisable until February 17, 2015 to purchase one (1) additional common share of the Company at a purchase price of \$0.05 per share. The fair value of the common shares issued on the settlement date was \$627,511 and the amount allocated to warrants based on relative fair value using the Black Scholes model was \$595,310 and \$665,321 was recorded as a loss on settlement of debt.

(d) On February 17, 2012, the Company completed a non-brokered private placement of a total of 2,000,000 units in the capital of the Company at a purchase price of \$0.05 per unit for net proceeds of \$100,000. Each unit is comprised of one (1) common share and one (1) purchase warrant exercisable until February 17, 2015 to purchase one (1) additional common share of the Company at a purchase price of \$0.05 per share. The amount allocated to warrants based on relative fair value using the Black Scholes model was \$67,541.

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(e) On April 13, 2012, the Company completed private placements for gross proceeds of \$748,425 of equity capital from arm's length private placement funding through the issuance of 3,000,000 units at a price of US\$0.25 per unit. Each unit is comprised of one common share and one-half a common share purchase warrant, with each whole warrant entitling the holder to acquire one common share of the Company at US\$0.50 for a period of three years from the date of issuance. The amount allocated to derivative warrant liabilities for warrants based on fair value using the Black Scholes model was \$282,604. In connection with the private placement, the Company paid cash commissions and other expenses of \$45,030 and issued an aggregate of 240,000 broker warrants. Each broker warrant entitles the holder to acquire one common share of the Company at an exercise price of US\$0.25 for a period of three years from the date of issuance. The amount allocated to derivative warrant liabilities based on fair value using the Black Scholes model was \$78,005 with a corresponding decrease in common shares. The Company subsequently re-priced the offering at US\$0.20 and issued an additional 750,000 units on July 27, 2012. The fair value of the units based on the new offering price was determined to be \$188,625. The amount allocated to contributed surplus was \$132,616 and the amount allocated to derivative warrant liabilities based on fair value using the Black Scholes model was \$56,009. In addition, the Company issued an additional 60,000 broker warrants. Each broker warrant entitles the holder to acquire one common share of the Company at an exercise price of US\$0.25 for a period of three years from the date of issuance. The amount allocated to derivative warrant liabilities based on fair value using the Black Scholes model for broker warrants was \$14,109 with a corresponding decrease in contributed surplus (see Note 13).

(f) On July 20, 2012 and August 7, 2012 the Company completed private placements for gross proceeds of \$1,365,561 of equity capital from arm's length private placement funding through the issuance of 6,825,000 units at a price of US\$0.20 per unit. Each unit is comprised of one common share and one-half a common share purchase warrant, with each whole warrant entitling the holder to acquire one common share of the Company at US\$0.50 for a period of three years from the date of issuance. The amount allocated to derivative warrant liabilities for warrants based on fair value using the Black Scholes model was \$460,907. In connection with the private placement, the Company paid cash commissions and other expenses of \$82,239 and issued an aggregate of 546,000 broker warrants.

Each broker warrant entitles the holder to acquire one common share of the Company at an exercise price of US\$0.25 for a period of three years from the date of issuance. The amount allocated to derivative warrant liabilities based on fair value using the Black Scholes model was \$119,887 with a corresponding decrease in common shares (see Note 13).

(g) On May 8, 2012, the Company issued 171,385 common shares as full settlement of interest due on shareholders' loans in the amount of \$43,983. The amount allocated to common shares based on fair value was \$44,547 and \$564 was recorded as a loss on settlement of debt in the statement of operations and comprehensive loss.

(h) On August 31, 2012 the Company cancelled 3,418,468 common shares and 1,709,234 common shares purchase warrants exercisable at US\$0.50 until August 31, 2014. The common shares and warrants had been issued August 31, 2010 as partial consideration of the purchase price for Dyami Energy and held in escrow pending the satisfaction of certain conditions precedent to their release on August 31, 2012. The conditions precedent had not been satisfied and the time allowed for performance expired. The Company recorded a reduction in exploration and evaluation assets of \$2,091,616, a reduction in common shares of \$1,397,199, a reduction of derivative warrant liabilities of \$675,487 and a reduction in contributed surplus of \$18,930 (see Note 13).

(i) On September 25, 2012 the Company completed private placements for gross proceeds of \$441,004 of equity capital from arm's length private placement funding through the issuance of 2,249,790 units at a price of US\$0.20 per unit. Each unit is comprised of one common share and one-half a common share purchase warrant, with each whole warrant entitling the holder to acquire one common share of the Company at US\$0.50 for a period of three years from the date of issuance. The amount allocated to derivative warrant liabilities for warrants based on fair value using the Black Scholes model was \$182,830. In connection with the private placement, the Company paid cash commissions and other expenses of \$35,354 and issued an aggregate of 179,983 broker warrants. Each broker warrant entitles the holder to acquire one common share of the Company at an exercise price of US\$0.25 for a period of three years from the date of issuance. The amount allocated to derivative warrant liabilities based on fair value using the Black Scholes model was \$56,812 with a corresponding decrease in common shares (see Note 13).

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The following table summarizes the outstanding warrants as at February 28, 2013:

Number of Warrants*	Exercise Price*	Expiry Date	Weighted Average Remaining Life (Years)	Warrant Value (\$)
2,000,000	\$0.04	February 5, 2014	0.94	\$ 24,000
800,512	\$0.04	February 25, 2014	0.99	9,606
18,250,436	\$0.04	February 27, 2014	1.00	219,031
6,000,000	\$0.05	January 24, 2015	1.90	507,038
11,150,000	\$0.05	February 17, 2015	1.97	595,310
2,000,000	\$0.05	February 17, 2015	1.97	67,541
40,200,948	\$0.04		1.45	\$ 1,422,526

* Reflects the March 16, 2012 two-for-one stock split

The following table summarizes the outstanding warrants as at August 31, 2012:

Number of Warrants*	Exercise Price*	Expiry Date	Weighted Average Remaining Life (Years)	Warrant Value (\$)
2,000,000	\$0.04	February 5, 2014	1.43	\$ 24,000
800,512	\$0.04	February 25, 2014	1.49	9,606
18,250,436	\$0.04	February 27, 2014	1.49	219,031
6,000,000	\$0.05	January 24, 2015	2.40	507,038
11,150,000	\$0.05	February 17, 2015	2.47	595,310
2,000,000	\$0.05	February 17, 2015	2.47	67,541
40,200,948	\$0.04		1.94	\$ 1,422,526

* Reflects the March 16, 2012 two-for-one stock split

The fair value of the warrants issued during the year ended August 31, 2012, were estimated using the Black-Scholes pricing model with the following assumptions:

Risk-free interest rate	1%
Expected volatility	218%
Expected life (years)	3
Dividend yield	-

The following table summarizes the weighted average shares outstanding:

Weighted Average Shares Outstanding*	Three Months Ended		Six Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Weighted average shares outstanding, basic and diluted	98,957,457	73,483,410	98,659,142	70,464,382

* Reflects the March 16, 2012 two-for-one stock split

The effects of any potential dilutive instruments on loss per share are anti-dilutive and therefore have been excluded from the calculation of diluted loss per share.

Share Purchase Options

The Company has a stock option plan to provide incentives for directors, officers, employees and consultants of the Company. The maximum number of shares, which may be set aside for issuance under the stock option plan, is 20% of the issued and outstanding common shares of the Company on a rolling basis.

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The following table is a summary of the status of the Company's stock options and changes during the period:

	Number of Options*	Weighted Average Exercise Price*
Balance, August 31, 2011	-	\$ -
Granted	1,050,000	0.16
Balance, August 31, 2012 and February 28, 2013	1,050,000	\$0.16

* Reflects the March 16, 2012 two-for-one stock split

The following table is a summary of the Company's stock options outstanding and exercisable at February 28, 2013:

Options Outstanding				Options Exercisable	
Exercise Price	Number of Options*	Weighted Average Exercise Price*	Weighted Average Remaining Life (Years)	Number of Options*	Weighted Average Exercise Price*
\$ 0.16	1,000,000	\$ 0.16	4.00	1,000,000	\$ 0.16
\$ 0.25	50,000	\$ 0.25	4.40	50,000	\$ 0.25
	1,050,000	\$ 0.16	4.02	1,050,000	\$ 0.16

* Reflects the March 16, 2012 two-for-one stock split

The following table is a summary of the Company's stock options outstanding and exercisable at August 31, 2012:

Options Outstanding				Options Exercisable	
Exercise Price	Number of Options*	Weighted Average Exercise Price*	Weighted Average Remaining Life (Years)	Number of Options*	Weighted Average Exercise Price*
\$ 0.16	1,000,000	\$ 0.16	4.50	1,000,000	\$ 0.16
\$ 0.25	50,000	\$ 0.25	4.90	50,000	\$ 0.25
	1,050,000	\$ 0.16	4.52	1,050,000	\$ 0.16

* Reflects the March 16, 2012 two-for-one stock split

The fair value of the stock options granted for the year ended August 31, 2012 were estimated on the date of the grant using the Black Scholes option pricing model with the following weighted average assumptions used.

	March 1, 2012	July 24, 2012
Weighted average fair value per option	\$0.16	\$0.22
Weighted average risk free interest rate	1.44%	1.12%
Forfeiture rate	0%	0%
Weighted average expected volatility	213%	233%
Expected life (years)	5	5
Dividend yield	Nil	Nil

Contributed Surplus

Contributed surplus transactions for the respective periods are as follows:

	Amount
Balance, August 31, 2011	\$85,737
Imputed interest	2,334
Warrants expired (Note 13)	318,552
Warrants cancelled (note h)	(18,930)
Compensation expense on re-pricing of units (note e)	118,507
Balance, August 31, 2012 and February 28, 2013	\$506,200

11. Related Party Transactions and Balances

The following transactions with individuals related to the Company arose in the normal course of business have been accounted for at the exchange amount being the amount agreed to by the related parties, which approximates the arm's length equivalent value.

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Compensation of Key Management Personnel

The remuneration of directors and other members of key management personnel during the three and six month periods ended were as follows:

	Three Months Ended		Six Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Short term employee benefits (1)	\$18,750	\$ 18,750	\$37,500	\$37,500

The following balances owing to the President of the Company are included in trade and other payables, are unsecured, non-interest bearing and due on demand:

	February 28, 2013	August 31, 2012
Short term employee benefits (1)	\$168,750	\$131,250
Expenses paid on behalf of the Company	-	1,896
	\$168,750	\$133,146

(1) The Company accrues management fees for the President of the Company at a rate of \$6,250 per month.

At February 28, 2013 and the amount of directors' fees included in trade and other payables was \$14,700 (August 31, 2012: \$12,900).

At February 28, 2013 and August 31, 2012 the Company had promissory notes payable to the President of \$28,845 and US\$300,000. For the six months ended February 28, 2013 the Company recorded interest of \$17,281 (February 29, 2012: \$16,227). At February 28, 2013, included in trade and other payables is interest of \$46,305 (August 31, 2012 \$28,687). The notes are due on demand and bear interest at 10% per annum. Interest is payable annually on the anniversary date of the notes. The interest payable due dates have been extended to May 31, 2013.

At February 28, 2013 and August 31, 2012 the Company had a US\$960,000, 10% per annum secured promissory note payable to Benchmark Enterprises LLC ("Benchmark"). Benchmark is a shareholder of the Company. For the six months ended February 28, 2013 the Company recorded interest of \$48,288 (February 29, 2012: \$35,039). At February 28, 2013 included in trade and other payables is interest of \$112,455 (August 31, 2012: \$63,296) (see Note 12).

At February 28, 2013 included in trade and other payables is \$20,954 due to Gottbetter & Partners, LLP for legal fees (August 31, 2012: \$14,649). During the six months ended February 28, 2013 the Company completed private placements of 2,249,790 units in the capital of the Company for gross proceeds of \$441,004 and paid to Gottbetter Capital Markets, LLC, placement agent fees of \$35,280 and issued 179,983 common share purchase warrants exercisable at US\$0.25 for a period of three years from the date of issue. Gottbetter & Partners, LLP is a shareholder of the Company. Adam Gottbetter is the managing and principal partner of Gottbetter & Partners, LLP and the beneficial owner of Gottbetter Capital Markets, LLC.

At February 28, 2013 and August 31, 2012, the Company had shareholders' loans payable of US\$1,583,740 and \$293,000. For the six months ended February 28, 2013 the Company recorded interest of \$52,083 (February 29, 2012: \$135,166). At February 28, 2013, included in trade and other payables, is interest of \$299,407 (August 31, 2012: \$190,484). The notes are payable on demand and bear interest at 10% per annum. Interest is payable annually on the anniversary date of the notes. The interest payable due dates have been extended to May 31, 2013.

12. Secured Note Payable

At February 28, 2013, the Company had a US\$960,000, 10% per annum secured promissory note payable to Benchmark Enterprises LLC (August 31, 2012: US\$960,000). The note and all unpaid and accrued interest is due on or before August 31, 2013, or within 15 days of written demand to the Company, or upon the Company closing a cash financing or series of cash financings in excess of US\$2,500,000 in which case fifty cents of every one dollar exceeding US\$2,500,000 will be allocated to the secured note until paid in full. For the six months ended February 28, 2013 the Company recorded interest of \$48,288 (February 29, 2012: \$35,039). At February 28, 2013 included in trade and other payables is interest of \$112,455 (August 31, 2012: \$63,296). The note is secured by Dyami Energy's interest in the Matthews and Murphy Leases, Zavala County, Texas. The Company may, in its sole discretion, prepay any portion of the principal amount.

13. Derivative Warrant Liabilities

The Company has warrants issued with an exercise price in US dollars which are different from the functional currency of the Company (Canadian Dollars) and accordingly the warrants are treated as a financial liability and the fair value movement during the period is recognized in profit or loss.

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The following tables sets out the changes in derivative warrant liabilities during the respective periods:

	Number of Warrants*	Fair Value Assigned \$	Average Exercise Price US \$*
Balance August 31, 2011	4,409,178	\$1,576,269	\$0.52
Warrants expired	(990,712)	(318,552)	0.58
Warrants issued	5,287,500	799,520	0.50
Broker warrants issued	846,000	212,001	0.25
Warrants cancelled	(1,709,234)	(675,487)	0.50
Change in fair value estimates	-	46,655	-
Balance August 31, 2012	7,842,732	1,640,406	\$0.47
Warrants issued	1,124,895	182,830	0.50
Broker warrants issued	179,983	56,812	0.25
Change in fair value estimates	-	79,378	-
Balance February 28, 2013	9,147,610	\$1,959,426	\$0.49

* Reflects the March 16, 2012 two-for-one stock split

On August 31, 2012 1,709,234 common share purchase warrants were cancelled and the fair value measured using the Black Scholes valuation model was \$675,487.

On December 10, 2011 593,808 warrants expired and the fair value measured using the Black Scholes valuation model of \$179,113 was recorded as an increase to contributed surplus.

On June 10, 2012 296,904 warrants expired and the fair value measured using the Black Scholes valuation model of \$99,999 was recorded as an increase to contributed surplus.

On May 4, 2012, 100,000 expired and the fair value measured using the Black Scholes valuation model of \$39,440 was recorded as an increase to contributed surplus.

On April 13, 2012 and July 27, 2012 the Company issued 1,875,000 common share purchase warrants exercisable at US\$0.50 and 300,000 common share purchase broker warrants exercisable at US\$0.25 expiring April 13, 2015. The fair value measured using the Black Scholes valuation model was \$338,813 and \$92,114, respectively.

On July 20, 2012 the Company issued 912,500 common share purchase warrants exercisable at US\$0.50 and 146,000 common share purchase broker warrants exercisable at US\$0.25 expiring July 20, 2015. The fair value measured using the Black Scholes valuation model was \$124,288 and \$33,454, respectively.

On August 7, 2012 the Company issued 2,500,000 common share purchase warrants exercisable at US\$0.50 and 400,000 common share purchase broker warrants exercisable at US\$0.25 expiring August 7, 2015. The fair value measured using the Black Scholes valuation model was \$336,419 and \$86,433, respectively.

On September 25, 2012 the Company issued 1,124,895 common share purchase warrants exercisable at US\$0.50 and 179,983 common share purchase broker warrants exercisable at US\$0.25 expiring September 25, 2015. The fair value measured using the Black Scholes valuation model was \$182,830 and \$56,812, respectively.

The following tables sets out the number of derivative warrant liabilities outstanding at February 28, 2013:

Number of Warrants*	Exercise Price US (\$)*	Expiry Date	Weighted Average Remaining Life (Years)	Fair Value CDN (\$)
1,709,232	\$0.50	August 31, 2014	1.50	\$671,310
1,875,000	\$0.50	April 13, 2015	2.12	346,187
300,000	\$0.25	April 13, 2015	2.12	94,175
912,500	\$0.50	July 20, 2015	2.39	126,389
146,000	\$0.25	July 20, 2015	2.39	34,020
2,500,000	\$0.50	August 7, 2015	2.44	346,652
400,000	\$0.25	August 7, 2015	2.44	89,217
1,124,895	\$0.50	September 25, 2015	2.57	191,858
179,983	\$0.25	September 25, 2015	2.57	59,618
9,147,610			2.20	\$1,959,426

* Reflects the March 16, 2012 two-for-one stock split

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The fair value of the warrants issued during the six months ended February 28, 2013, were estimated using the Black-Scholes pricing model with the following assumptions:

Risk-free interest rate	1.21%
Expected volatility	162%
Expected life (years)	3
Dividend yield	-

The following tables sets out the number of derivative warrant liabilities outstanding at August 31, 2012:

Number of Warrants*	Exercise Price US (\$)*	Expiry Date	Weighted Average Remaining Life (Years)	Fair Value CDN (\$)
1,709,232	\$0.50	August 31, 2014	2.00	\$643,766
1,875,000	\$0.50	April 13, 2015	2.62	333,975
300,000	\$0.25	April 13, 2015	2.62	90,852
912,500	\$0.50	July 20, 2015	2.88	121,203
146,000	\$0.25	July 20, 2015	2.88	32,624
2,500,000	\$0.50	August 7, 2015	2.93	332,428
400,000	\$0.25	August 7, 2015	2.93	85,558
7,842,732			2.20	\$1,640,406

* Reflects the March 16, 2012 two-for-one stock split

The fair value of the warrants issued during the year ended August 31, 2012, were estimated using the Black-Scholes pricing model with the following assumptions:

Risk-free interest rate	1%-1.3%
Expected volatility	192%-199%
Expected life (years)	3
Dividend yield	-

14. Financial Instruments and Concentration of Risks

The Company has classified its financial instruments as follows:

Financial Instrument	Category	Measurement method
Cash and cash equivalents	Fair value through profit or loss	Fair value
Marketable securities	Fair value through profit or loss	Fair value
Derivative warrant liabilities	Fair value through profit or loss	Fair value
Trade and other receivables	Loans and receivables	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Provisions	Other financial liabilities	Amortized cost
Secured note payable and shareholders' loans	Other financial liabilities	Amortized cost

The types of risk exposure and the ways in which such exposures are managed are as follows:

Credit Risk

Credit risk is primarily related to the Company's receivables from joint venture partners and the risk of financial loss if a partner or counterparty to a financial instrument fails to meet its contractual obligations. Receivables from joint venture partners are normally collected within one to three months of the joint venture bill being issued to the partner. The Company historically has not experienced any collection issues with its joint venture partners to date. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure. The Company establishes an allowance for doubtful accounts as determined by management based on their assessed collectability; therefore, the carrying amount of trade and other receivables generally represents the maximum credit exposure. The Company believes that its counterparties currently have the financial capacity to settle outstanding obligations in the normal course of business.

Concentration risks exist in cash and cash equivalents because significant balances are maintained with one financial institution. The risk is mitigated because the financial institution is an international bank.

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The Company's maximum exposure to credit risk is as follows:

	February 28, 2013	August 31, 2012
Cash and cash equivalents	\$477,633	\$330,003
Trade and other receivables	49,716	17,525
Balance	<u>\$527,349</u>	<u>\$347,528</u>

Liquidity Risk

The Company monitors its liquidity position regularly to assess whether it has the funds necessary to fulfill planned exploration commitments on its oil and gas properties or that viable options are available to fund such commitments from new equity issuances or alternative sources such as farm-out agreements. However, as an exploration company at an early stage of development and without significant internally generated cash flow, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company, or that actual exploration expenditures may exceed those planned. The current uncertainty in global markets could have an impact on the Company's future ability to access capital on terms that are acceptable to the Company. The Company has so far been able to raise the required financing to meet its obligations however, there can be no assurance that it will continue to do so in the future.

The following table illustrates the contractual maturities of financial liabilities:

February 28, 2013

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Trade and others payables	\$1,386,440	\$1,386,440	-	-	-
Secured note payable (1)	987,360	987,360	-	-	-
Shareholders' loans (1)	2,258,552	2,258,552	-	-	-
Total	<u>\$4,632,352</u>	<u>\$4,632,352</u>	<u>-</u>	<u>-</u>	<u>-</u>

August 31, 2012

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Trade and others payables	\$1,039,959	\$1,039,959	-	-	-
Secured note payable (1)	946,848	946,848	-	-	-
Shareholders' loans (1)	2,179,778	2,179,778	-	-	-
Total	<u>\$4,166,585</u>	<u>\$4,166,585</u>	<u>-</u>	<u>-</u>	<u>-</u>

(1) Translated at current exchange rate.

Market Risk

Market risk represents the risk of loss that may impact the Company's financial position, results of operations, or cash flows due to adverse changes in financial market prices, including interest rate risk, foreign currency exchange rate risk, commodity price risk, and other relevant market or price risks. The Company does not use derivative financial instruments or derivative commodity instruments to mitigate this risk.

The oil and gas industry is exposed to a variety of risks including the uncertainty of finding and recovering new economic reserves, the performance of hydrocarbon reservoirs, securing markets for production, commodity prices, interest rate fluctuations, potential damage to or malfunction of equipment and changes to income tax, royalty, environmental or other governmental regulations.

Market events and conditions in recent years including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions have caused significant volatility to commodity prices. These conditions caused a loss of confidence in the broader U.S. and global credit and financial markets. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline. These factors have negatively impacted company valuations and may impact the performance of the global economy going forward. Although economic conditions have improved, the recovery has been slow in various jurisdictions including in Europe and the United States.

The Company mitigates these risks by (i) utilizing competent, professional consultants as support to company staff; (ii) performing geophysical, geological or engineering analyses of prospects; and (iii) focusing on a limited number of core properties.

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(Expressed In Canadian Dollars) (Unaudited)**

(i) Commodity Price Risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand.

The Company believes that movement in commodity prices that are reasonably possible over the next twelve month period will not have a significant impact on the Company.

The following table summarizes the sensitivity of the fair value of the Company's risk management position for the period ended February 28, 2013 and February 29, 2012 to fluctuations in natural gas prices, with all other variables held constant. When assessing the potential impact of these price changes, the Company believes that 10 percent volatility is a reasonable measure. Fluctuations in natural gas prices potentially could have resulted in unrealized gains (losses) impacting net income as follows:

	February 28, 2013		February 29, 2012	
	Increase 10%	Decrease 10%	Increase 10%	Decrease 10%
Net revenue	\$22,231	\$17,139	\$22,198	\$18,162
Net loss	\$589,078	\$594,130	\$1,805,932	\$1,809,968

(ii) Currency Risk

The Company is exposed to the fluctuations in foreign exchange rates. The prices received by the Company for the production of natural gas and natural gas liquids are primarily determined in reference to United States dollars but are settled with the Company in Canadian dollars. The Company's cash flow for commodity sales will therefore be impacted by fluctuations in foreign exchange rates.

The Company operates in Canada and a portion of its expenses are incurred in U.S. dollars. A significant change in the currency exchange rates between the Canadian dollar relative to US dollar could have an effect on the Company's financial instruments. The Company does not hedge its foreign currency exposure.

The following assets and liabilities are denominated in US dollars at February 28, 2013 and 2012:

Financial Instruments	February 28, 2013	February 29, 2012
Cash and cash equivalents	\$442,141	\$682
Trade and other receivables	14,349	74,949
Exploration and evaluation assets	5,231,313	3,970,738
Trade and other payables	(935,421)	(301,327)
Derivative warrant liabilities	(1,905,130)	(1,469,104)
Provisions	(332,665)	(127,666)
Shareholders' loans	(1,883,740)	(2,363,740)
Secured notes payable	(960,000)	(960,000)
Net assets denominated in US\$	<u>\$(329,153)</u>	<u>\$(1,175,468)</u>
Net asset CDN dollar equivalent at period end ⁽¹⁾	<u>\$(338,534)</u>	<u>\$(1,159,717)</u>

(1) Translated at the exchange rate in effect at February 28, 2013: \$1.0285 (February 28, 2012: \$0.9866)

The following table shows the estimated sensitivity of the Company's total comprehensive loss for the periods set out from a change in the U.S dollar exchange rate in which the Company has exposure with all other variables held constant:

Percentage change in US Dollar	February 28, 2013		February 29, 2012	
	Increase	Decrease	Increase	Decrease
	In total comprehensive loss from a change in % in the US Exchange Rate (\$)		In total comprehensive loss from a change in % in the US Exchange Rate (\$)	
2%	6,964	(6,964)	22,884	(22,884)
4%	13,927	(13,927)	45,767	(45,767)
6%	20,891	(20,891)	68,651	(68,651)
8%	27,855	(27,855)	91,534	(91,534)
10%	34,818	(34,818)	114,418	(114,418)

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(iii) Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The majority of the Company's debt is short-term in nature with fixed rates.

Based on management's knowledge and experience of the financial markets, the Company believes that the movements in interest rates that are reasonably possible over the next twelve month period will not have a significant impact on the Company.

(iv) Fair Value of Financial Instruments

The Company's financial instruments included on the consolidated statement of financial position as at February 28, 2013 and August 31, 2012, are comprised of cash and cash equivalents, marketable securities, derivative warrant liabilities, trade and other receivables, trade and other payables, secured note payable, shareholders' loans, and provisions .

The Company classifies the fair value of financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Financial Instrument Classification	February 28, 2013		August 31, 2012	
	Carrying Value \$	Fair Value \$	Carrying Value \$	Fair Value \$
Fair value through profit or loss:				
Cash and cash equivalents	477,633	477,633	330,003	330,003
Marketable securities	1	1	1	1
Derivative warrant liabilities	1,959,426	1,959,426	1,640,406	1,640,406
Loans and receivables:				
Trade and other receivables	49,716	49,716	17,525	17,525
Other financial liabilities:				
Trade and other payables	1,386,440	1,386,440	1,039,959	1,039,959
Secured notes payable	987,360	987,360	946,848	946,848
Shareholders' loans	2,258,552	2,258,552	2,179,778	2,179,778
Provisions	356,452	356,452	240,672	240,672

Cash and cash equivalents, derivative warrant liabilities and marketable securities are stated at fair value (Level 1 measurement). The carrying value of trade and other receivables, trade and other payables, secured notes payable and shareholders' loans approximate their fair value due to the short-term maturity of these financial instruments (Level 3 measurement).

Capital Management

The Company's objectives when managing capital are to ensure the Company will have sufficient financial capacity, liquidity and flexibility to fund its operations, growth and ongoing exploration and development commitments on its oil and gas interests. The Company is dependent on funding these activities through debt and equity financings. Due to long lead cycles of the Company's exploration activities, the Company's capital requirements currently exceed its operational cash flow generated. As such the Company is dependent upon future financings in order to maintain its flexibility and liquidity and may from time to time be required to issue equity, issue debt, adjust capital spending or seek joint venture partners.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of any underlying assets in order to meet current and upcoming obligations. Current plans for the development commitments of the Company's Texas leases include debt or equity financing or seeking and obtaining a joint venture partner.

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The board of directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management and favourable market conditions to sustain future development of the business.

As at February 28, 2013 and August 31, 2012 the Company considered its capital structure to comprise of shareholders equity and long-term debt.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's capital management during the period ended February 28, 2013.

The Company is not subject to any externally imposed restrictions on its capital requirements.

15. Supplemental Cash Flow Information and Non-Cash Transactions

The following table summarizes the non-cash transactions for the periods set out:

Non-cash transactions	Six Months Ended	
	February 28, 2013	February 29, 2012
Broker warrants issued	\$56,512	-
Shares issued for interest on shareholders' loans and secured note	-	\$395,589
Units issued as compensation	-	\$44,285
Warrants expired	-	\$179,113
Units issued as debt settlement	-	\$2,252,715

The following table summarizes the changes in non-cash working capital for the periods set out:

Changes in non-cash working capital	Six Months Ended	
	February 28, 2013	February 29, 2012
Trade and other receivables	(32,192)	\$(12,705)
Trade and other payables	346,483	(86,970)
Net change	\$314,291	\$(99,675)

16. Commitments and Contingencies

The Company has drilling commitments on its Leases located in Zavala County, Texas, USA (see Note 7).

Matthews Lease Litigation

The lessors of the Matthews lease expressed their belief that the Lease has terminated and filed a petition in the District Court, Zavala County, Texas, seeking a declaration that the lease has terminated. The Company disagrees and believes that it is in full compliance with the terms of the lease. The Company is defending the allegation and countering the lessor for repudiation of the lease and seeking damages (see Note 7).

As at February 28, 2013 and August 31, 2012, no amounts of contingent loss due to the impairment of the above mentioned lease have been recorded in these consolidated financial statements. According to the Company's legal counsel, there are no dispositive motions pending, a trial date has not been set and in their opinion it is not possible to evaluate the likelihood of an unfavourable outcome or the amount or range of potential loss.

At February 28, 2013 the Company carries its investment in the Matthews lease at approximately \$4,836,929 (August 31, 2012: \$4,645,534). If the final outcome of such claim differs adversely from that expected, it would result in an impairment loss equal to the carrying value of the Matthews lease, when determined.

Other Provisions

The Company has provided for contingencies that are currently in dispute (see Note 9).

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17. Comparative Figures

The comparative unaudited interim condensed consolidated statements of operations and comprehensive loss and the comparative unaudited interim condensed consolidated statements of cash flows for the three and six month periods ended February 29, 2012 have been revised primarily to reflect revisions made to the assumptions used in the Black Scholes calculation of derivative warrant liabilities. The assumptions are now consistent with the assumptions used in the Black Scholes calculation of derivative warrant liabilities in the audited consolidated financial statements for the year ended August 31, 2012.

The effect of the changes is summarized as follows:

	Three Months Ended February 29, 2012		Six Months Ended February 29, 2012	
	As previously filed \$	As adjusted \$	As previously filed \$	As adjusted \$
Unaudited Interim Condensed Consolidated Statement of Operations and Comprehensive Loss				
Net loss	(1,507,904)	(1,466,298)	(1,032,215)	(1,807,950)
Comprehensive loss	(1,585,677)	(1,544,071)	(1,131,358)	(1,907,093)
Unaudited Interim Condensed Consolidated Statement of Cash Flows				
Net income (loss) for the period	(1,507,904)	(1,466,298)	(1,032,215)	(1,807,950)
Cash provided by (used in) operating activities	-	-	(412,875)	(249,471)
Cash provided by (used in) investing activities	-	-	(216,492)	(374,489)

Also, certain comparative figures have been reclassified to conform to current period presentation under IFRS.