

**ECHELON PETROLEUM CORP.**  
**(Formerly Rara Terra Minerals Corp.)**  
**Interim Condensed Consolidated Financial Statements**  
**Three and Nine Months Ended December 31, 2013**

**Expressed in Canadian Dollars**  
**(Unaudited)**

#### **NOTICE TO READER**

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 condensed consolidated financial statements have been prepared by and are the responsibility of the management of Echelon Petroleum Corp.

The Company's independent auditor has not performed a review of these interim condensed consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Echelon Petroleum Corp.  
(formerly Rara Terra Minerals Corp.)  
Interim Condensed Consolidated Statements of Financial Position  
(Expressed in Canadian Dollars - unaudited)

	Notes	December 31, 2013	March 31, 2013
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 6,361	\$ 271,331
Prepaid expenses		8,306	8,500
Receivables		-	17,163
		14,667	296,994
<b>Non-current assets</b>			
Mineral exploration and evaluation assets	3	495,286	461,197
Oil and gas exploration and evaluation assets	4	1,147,015	1,116,526
		1,642,301	1,577,723
<b>TOTAL ASSETS</b>		<b>\$ 1,656,968</b>	<b>\$ 1,874,717</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payables and accrued liabilities	5	\$ 180,023	\$ 49,118
<b>TOTAL LIABILITIES</b>		<b>180,023</b>	<b>49,118</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	7	3,451,518	3,442,818
Share-based payment reserve	7	343,158	343,158
Deficit		(2,317,731)	(1,960,377)
<b>TOTAL EQUITY</b>		<b>1,476,945</b>	<b>1,825,599</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 1,656,968</b>	<b>\$ 1,874,717</b>

On behalf of the board:

"Alex Helmel"  
Director

"Roger Flowerdew"  
Director

Echelon Petroleum Corp.  
(formerly Rara Terra Minerals Corp.)  
Interim Condensed Consolidated Statements of Comprehensive Loss  
(Expressed in Canadian Dollars - unaudited)

	Notes	Three months ended		Nine months ended	
		December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
<b>Revenues</b>					
Oil sales, net	4	\$ (1,202)	\$ -	\$ 4,052	\$ -
<b>Expenses</b>					
Consulting and management fees	6	82,500	78,250	238,167	204,250
General and administrative		5,003	1,526	15,910	5,804
Investor relations		500	4,500	5,375	18,228
Professional fees		6,745	3,580	37,737	10,010
Property investigation costs		-	8,430	-	20,005
Rent	6	10,500	10,500	31,500	31,391
Transfer agent and filing fees		301	3,051	14,299	8,501
Travel and promotion		-	9,942	15,218	11,335
		(105,549)	(119,779)	(358,206)	(309,523)
<b>Net loss before other items</b>		<b>(104,437)</b>	<b>(119,779)</b>	<b>(354,154)</b>	<b>(309,523)</b>
<b>Other Items</b>					
Impairment of exploration and evaluation assets	3	-	-	3,200	-
Interest income		-	-	-	314
<b>Net and comprehensive loss for the period</b>		<b>\$ (104,437)</b>	<b>\$ (119,779)</b>	<b>\$ (357,354)</b>	<b>\$ (309,209)</b>
<b>Loss per share – basic and diluted</b>	7	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>

See accompanying notes to the interim condensed consolidated financial statements

Echelon Petroleum Corp.  
(formerly Rara Terra Minerals Corp.)  
Interim Condensed Consolidated Statement of Changes in Shareholders' Equity  
(Expressed in Canadian Dollars - unaudited)

	Notes	Share capital		Share-based payment reserve	Deficit	Total
		Number of shares	Amount			
<b>Balance at April 1, 2012</b>		<b>16,224,901</b>	<b>\$ 2,603,099</b>	<b>\$ 269,875</b>	<b>\$ (987,155)</b>	<b>\$ 1,885,819</b>
Comprehensive income:						
Loss for the period		-	-	-	(309,209)	(309,209)
Transactions with shareholders, in their capacity as shareholders, and other transfers:						
Shares issued to acquire exploration and evaluation assets		617,813	65,887	-	-	65,887
Shares issued for cash – option exercise		90,000	15,754	(6,754)	-	9,000
Fair value of warrant extension		-	-	80,037	(80,037)	-
<b>Balance at December 31, 2012</b>		<b>16,932,714</b>	<b>\$ 2,684,740</b>	<b>\$ 343,158</b>	<b>\$ (1,376,401)</b>	<b>\$ 1,651,497</b>
<b>Balance at April 1, 2013</b>		<b>22,047,714</b>	<b>\$ 3,442,818</b>	<b>\$ 343,158</b>	<b>\$ (1,960,377)</b>	<b>\$ 1,825,599</b>
Comprehensive income:						
Loss for the period		-	-	-	(357,354)	(357,354)
Transactions with shareholders, in their capacity as shareholders, and other transfers:						
Shares issued to acquire exploration and evaluation assets	3,7	57,500	8,700	-	-	8,700
<b>Balance at December 31, 2013</b>		<b>22,105,214</b>	<b>\$ 3,451,518</b>	<b>\$ 343,158</b>	<b>\$ (2,317,731)</b>	<b>\$ 1,476,945</b>

See accompanying notes to the interim condensed consolidated financial statements

Echelon Petroleum Corp.  
(formerly Rara Terra Minerals Corp.)  
Interim Condensed Consolidated Statements of Cash Flows  
(Expressed in Canadian Dollars – unaudited)

	Nine months ended	
	December 31, 2013	December 31, 2012
<b>Operating activities</b>		
Net loss	\$ (357,354)	\$ (309,209)
Adjustments for non-cash items:		
Impairment of exploration and evaluation assets	3,200	-
Changes in non-cash working capital items:		
Receivables	17,163	115,152
Prepaid expenses	194	(17,000)
Accounts payables and accrued liabilities	130,905	(19,629)
Due to related parties	-	(3,291)
<b>Net cash flows used in operating activities</b>	<b>(205,892)</b>	<b>(233,977)</b>
<b>Investing activities</b>		
Mineral exploration and evaluation expenditures	(28,589)	(621,807)
Oil and gas exploration and evaluation expenditures	(30,489)	-
<b>Net cash flows used in investing activities</b>	<b>(59,078)</b>	<b>(621,807)</b>
<b>Financing activities</b>		
Proceeds received for shares issued, net of issuance costs	-	9,000
<b>Net cash flows from financing activities</b>	<b>-</b>	<b>9,000</b>
Decrease in cash	(264,970)	(846,784)
Cash, beginning	271,331	1,330,361
<b>Cash, ending</b>	<b>\$ 6,361</b>	<b>\$ 483,577</b>
<b>Non-cash transaction:</b>		
Fair value of shares issued for acquisition of exploration and evaluation assets	\$ 8,700	\$ 65,887

See accompanying notes to the interim condensed consolidated financial statements

**1. Nature and continuance of operations**

Echelon Petroleum Corp. (the "Company") was incorporated in the name of Rara Terra Capital Corp. under the British Columbia Business Corporations Act on December 17, 2009. The Company was formed for the primary purpose of completing an Initial Public Offering ("IPO") on the TSX Venture Exchange ("Exchange") as a Capital Pool Company ("CPC") as defined in Policy 2.4 of the Exchange and completed its Qualifying Transaction in May 2011 and changed its name to Rara Terra Minerals Corp. In May 2013, the Company changed its name to Echelon Petroleum Corp. The Company is in the process of evaluating its exploration and evaluation assets and has not yet determined whether these assets are economically recoverable.

The head office and principal address is located at 1100 Melville Street, Suite 830, Vancouver, British Columbia, Canada, V6E 4A6. The records and registered office is located at 885 West Georgia Street, Suite 800, Vancouver, British Columbia, V6C 3H1.

These interim condensed consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at December 31, 2013 the Company had not advanced its assets to commercial production and is not able to finance day to day activities through operations. The Company's continuation as a going concern is dependent upon the successful results from its exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These factors indicate the existence of a material uncertainty that may cast substantial doubt about the Company's ability to continue as a going concern. Management intends to finance operating costs over the next twelve months from existing working capital, loans from related parties, and or the private placement of common shares.

**2. Significant accounting policies and basis of preparation**

These unaudited interim condensed consolidated financial statements were authorized for issue on March 3, 2014 by the directors of the Company.

***Statement of compliance with International Financial Reporting Standards***

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS 34"), Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). They do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company's financial statements as at and for the year ended March 31, 2013. Accounting policies applied in the preparation of these unaudited interim condensed consolidated financial statements are the same as those applied in the preparation of the Company's annual financial statements for the year ended March 31, 2013.

***Basis of preparation***

The interim condensed consolidated financial statements have been prepared on an accrual basis and are based on historical costs, modified where applicable. The interim condensed consolidated financial statements are presented in Canadian Dollars unless otherwise noted.

**2. Significant accounting policies and basis of preparation (cont'd)**

***Consolidation***

The interim condensed consolidated financial statements include the accounts of the Company and its controlled entities. Details of controlled entities are as follows:

	Country of incorporation	Percentage owned*	
		December 31, 2013	March 31, 2012
0960128 B.C. LTD.	Canada	100%	n/a

\*Percentage of voting power is in proportion to ownership.

During the nine months ended December 31, 2013, the Company's subsidiary, 0960128 BC LTD, was inactive.

***Significant estimates and assumptions***

The preparation of the Company's interim condensed consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the recoverability of the carrying value of exploration and evaluation assets

***Significant judgments***

The preparation of interim condensed consolidated financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty.



**3. Mineral exploration and evaluation assets**

	Xeno Property	Lonnie Property	Total for period ended December 31, 2013	Total for year ended March 31, 2013
Acquisition costs:				
Balance, beginning	\$ 195,350	\$ -	\$ 195,350	\$ 165,187
Cash	10,000	2,000	12,000	66,607
Shares	7,500	1,200	8,700	21,450
Write-off	-	(3,200)	(3,200)	(57,894)
Balance, Ending	212,850	-	212,850	195,350
Exploration and evaluation expenditures:				
Balance, beginning	265,847	-	265,847	292,562
Geophysical survey	15,600	-	15,600	146,252
Staking	989	-	989	14,509
Tax credit	-	-	-	(18,969)
Write-off	-	-	-	(168,507)
Balance, ending	282,436	-	282,436	265,847
Total	\$ 495,286	\$ -	\$ 495,286	\$ 461,197

***Xeno Property, British Columbia***

On June 9, 2011, the Company entered into an option agreement to acquire a 100% interest in certain claims in the Xeno property in British Columbia, Canada for the following consideration:

- \$14,500 upon signing of the agreement (paid);
- \$12,500 (paid) and 75,000 common shares upon approval of the Exchange (issued with a fair value of \$18,750);
- \$10,000 (paid) and 50,000 common shares (issued with a fair value of \$4,500) on the 1<sup>st</sup> anniversary of the Exchange approval date; and
- \$10,000 (paid) and 50,000 common shares (issued with a fair value of \$7,500) on the 2<sup>nd</sup> anniversary of the Exchange approval date (Note 7).

On June 15, 2011, the Company entered into an option agreement to acquire a 100% interest in certain claims in the Xeno property in British Columbia, Canada for the following consideration:

- \$28,000 upon signing of the agreement (paid);
- \$28,000 (paid) and 75,000 common shares upon approval of the Exchange (issued with a fair value of \$18,750); and
- \$50,000 (paid) and 115,000 common shares (issued with a fair value of \$10,350) on the 1<sup>st</sup> anniversary of the Exchange approval date.

**3. Exploration and evaluation assets (cont'd)**

***Lonnie Property, British Columbia***

On January 31, 2011, the Company entered into an option agreement to purchase an undivided 60% interest in certain mining claims located in the Omineca Mining division of British Columbia for the following considerations:

- a) \$60,000 to be paid as:
  - \$10,000 refundable deposit paid Nov 29, 2010 (paid);
  - \$10,000 refundable deposit on agreement execution (paid);
  - \$20,000, renegotiated to \$4,607, on May 5, 2012 (paid); and
  - \$20,000 before May 5, 2013.
  
- b) \$500,000 exploration expenditures to be incurred as:
  - \$100,000 on or before May 5, 2012 (incurred);
  - \$100,000 on or before May 5, 2013; and
  - \$300,000 on or before May 5, 2014.
  
- c) Shares to be issued as:
  - 75,000 on or before the May 5, 2011 (issued with a fair value of \$20,625);
  - 75,000 on or before May 5, 2012 (issued with a fair value of \$6,000);
  - 75,000 on or before May 5, 2013; and
  - 60,000 on or before May 5, 2014.

The Company agreed to pay two unrelated individuals cash payments of \$6,000 and share issuance of 30,000 shares in total as finders' fees:

- Cash payments of \$2,000 (paid) and issuance of 7,500 shares (issued with a fair value of \$2,062) on the Acceptance Date;
- Cash payments of \$2,000 (paid) and issuance of 7,500 shares (issued with a fair value of \$600) on May 5, 2012;
- Cash payments of \$2,000 (paid) and issuance of 7,500 shares (issued with a fair value of \$1,200) on May 5, 2013 (Note 7); and
- Issuance of 7,500 shares on May 5, 2014.

In April 2013, the Company terminated the option agreement for the Lonnie Property. During the year ended March 31, 2013, the Company recorded an impairment loss of \$226,401 to write off the Lonnie Property. During the nine months ended December 31, 2013, the Company recorded an impairment loss of \$3,200 to write off additional costs for the Lonnie Property.

Echelon Petroleum Corp.  
(formerly Rara Terra Minerals Corp.)  
Notes to the Interim Condensed Consolidated Financial Statements  
(Expressed in Canadian Dollars - unaudited)  
For the nine months ended December 31, 2013 and 2012

**4. Oil and gas exploration and evaluation assets**

	March 31, 2013	Additions	December 31, 2013
Acquisition costs:			
Trego Property	\$ 439,464	\$ -	\$ 439,464
Exploration and evaluation expenditures:			
Trego Property	677,062	30,489	707,551
	\$ 1,116,526	\$ 30,489	\$ 1,147,015

***Trego County Property, Kansas, United States***

On November 15, 2012 the Company entered into an Oil & Gas Turnkey Participation and Operating Agreement (“OGA”) with Circlestar Energy Corp. (“Circlestar”) wherein for consideration of US\$393,750, Circlestar sold to the Company a 75% working interest before payout (60% net revenue interest) and a 56.25% working interest after payout (45% net revenue interest) in an oil and gas exploration and development prospect located in Trego County, Kansas. In December 2012, the Company made payments totaling \$395,027 (US\$393,750) to Circlestar with respect to the drilling and completion of the first Trego County Property well prospect. The OGA also grants the Company a right of first refusal to participate and acquire interests in new well projects on the Trego County Property. If the Company does not participate in those future project well opportunities or fund its share of the associated costs, the Company will lose its right of first refusal to participate and acquire interests in any future project well opportunities.

During the year ended March 31, 2013, the Company issued 370,313 common shares with a fair value of \$44,437 pursuant to a finder’s agreement between the finder and the Company.

On September 13, 2013, the Company entered into an Oil & Gas Turnkey Participation and Operating Agreement with Circlestar for the acquisition of a 50% working interest before payout (40% net revenue interest) and a 37.5% working interest after payout (30% net revenue interest) in certain additional wells located on oil and gas properties in Trego County, Kansas. In consideration for the working interest, the Company must pay to Circlestar an amount of US\$331,640. The agreement replaces the non-binding Letter of Intent (“LOI”) with Circlestar entered into on March 28, 2013. Pursuant to the LOI, the Company advanced a due diligence payment in the amount of \$172,410 (US\$168,300) to fund a 3D seismic program on the project, which was included in comprehensive loss for the year ended March 31, 2013 as the Company had not yet obtained the legal right to explore. The closing of the agreement is subject to final acceptance by the Exchange, which has not yet been received as at December 31, 2013.

During the nine months ended December 31, 2013, the Company earned \$4,052 in net revenues from oil sales from production on the Trego Property.

**5. Accounts payables and accrued liabilities**

	December 31, 2013	March 31, 2013
Accounts payables	\$ 84,210	\$ 24,782
Accrued liabilities	27,563	24,336
Due to related parties (Note 6)	68,250	-
	\$ 180,023	\$ 49,118

**6. Related party transactions**

***Related party balances:***

At December 31, 2013, \$68,250 (March 31, 2013 – \$nil) was due to directors of the Company for management fees and consulting services provided to the Company. The amounts are unsecured, non-interest bearing and have no fixed terms of repayment (Note 5).

***Related party transactions:***

The Company incurred the following transactions with the directors of the Company and companies that are controlled by directors of the Company.

	Nine months ended	
	December 31, 2013	December 31, 2012
Consulting fees	\$ 178,667	\$ 193,000
Rent	31,500	31,391
	\$ 210,167	\$ 224,391

***Key management personnel compensation***

	Nine months ended	
	December 31, 2013	December 31, 2012
Consulting	\$ 178,667	\$ 193,000

**7. Share capital**

***Authorized share capital***

Unlimited number of common shares without par value.

***Issued share capital***

At December 31, 2013 there were 22,105,214 issued and fully paid common shares (March 31, 2013 – 22,047,714).

***Share issuances for exploration and evaluation assets***

During the nine months ended December 31, 2013, the Company issued 7,500 common shares with a fair value of \$1,200 as finders' fees for the Lonnie Property (Note 3). Further, the Company issued 50,000 common shares with a fair value of \$7,500 pursuant to the option agreement for the Xeno Property (Note 3).

***Basic and diluted loss per share***

The calculation of basic and diluted loss per share for the nine months ended December 31, 2013 was based on the loss attributable to common shareholders of \$293,804 (2012 - \$309,209) and the weighted average number of common shares outstanding of 22,076,933 (2012 – 16,401,929).

Diluted loss per share did not include the effect of 896,200 stock options as the effect would be anti-dilutive.

**7. Share capital (cont'd)**

***Escrow shares***

At December 31, 2013, there were 337,500 shares (March 31, 2013 – 1,012,500) in escrow which will be released in May 2014.

***Stock options***

The changes in options during the nine month period ended December 31, 2013 are as follows:

	<b>December 31, 2013</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>
Options outstanding, beginning	1,134,100	\$ 0.21
Options granted	-	-
Options expired	(237,900)	\$ 0.26
Options outstanding, ending	896,200	\$ 0.20

Details of options outstanding as at December 31, 2013 are as follows:

<b>Exercise price</b>	<b>Remaining contractual life</b>	<b>Number of options</b>
\$0.10	1.65 years	360,000
\$0.26	2.34 years	536,200
		896,200

At December 31, 2013, the weighted average remaining contractual life of options outstanding was 2.06 years.

***Warrants***

The changes in warrants during the nine month period ended December 31, 2013 are as follows:

	<b>December 31, 2013</b>	
	<b>Number of warrants</b>	<b>Weighted average exercise price</b>
Warrants outstanding, beginning	4,546,201	\$ 0.39
Warrants granted	-	-
Warrants expired	(4,546,201)	\$ 0.39
Warrants exercised	-	-
Warrants outstanding, ending	-	\$ -

***Share-based payment reserve***

The share-based payment reserve records items recognized as stock-based compensation expense and finders' fees until such time that the stock options and finders' warrants are exercised, at which time the corresponding amount will be transferred to share capital.