

ECHELON PETROLEUM CORP.
(Formerly Rara Terra Minerals Corp.)
Consolidated Financial Statements
Year Ended March 31, 2014

Expressed in Canadian Dollars



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

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To the Shareholders of Echelon Petroleum Corp.:

We have audited the accompanying consolidated financial statements of Echelon Petroleum Corp. (formerly Rara Terra Minerals Corp.), which comprise the consolidated statements of financial position as at March 31, 2014 and 2013, and the consolidated statements of comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Echelon Petroleum Corp. as at March 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements, which describes certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Echelon Petroleum Corp.'s ability to continue as a going concern.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, B.C.
July 29, 2014

An independent firm associated with
Moore Stephens International Limited
MOORE STEPHENS

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

	Notes	March 31, 2014	March 31, 2013
ASSETS			
Current assets			
Cash		\$ 28,909	\$ 271,331
Prepaid expenses		252	8,500
GST receivable		-	17,163
		29,161	296,994
Non-current assets			
Mineral exploration and evaluation assets	4	-	461,197
Oil and gas exploration and evaluation assets	5	-	1,116,526
		-	1,577,723
TOTAL ASSETS		\$ 29,161	\$ 1,874,717
LIABILITIES			
Current liabilities			
Accounts payables and accrued liabilities	6,7	\$ 287,921	\$ 49,118
TOTAL LIABILITIES		287,921	49,118
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	8	3,451,518	3,442,818
Share- based payment reserve	8	343,158	343,158
Deficit		(4,053,436)	(1,960,377)
TOTAL EQUITY (DEFICIENCY)		(258,760)	1,825,599
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 29,161	\$ 1,874,717

Going concern (Note 1)
Subsequent events (Note 11)

On behalf of the board:

"Eric Boehnke"
Eric Boehnke, Director

"John Legg"
John Legg, Director

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

	Notes	Years ended	
		March 31, 2014	March 31, 2013
Revenues			
Oil sales, net	5	\$ 1,371	\$ -
Expenses			
Consulting and management fees	7	320,667	306,750
General and administrative		21,805	5,133
Investor relations		5,375	23,884
Professional fees		48,367	39,577
Property investigation costs	5	-	212,699
Rent	7	42,000	41,891
Transfer agent and filing fees		20,196	9,871
Travel and promotion		15,218	26,979
		473,628	666,784
Other items			
Impairment of mineral exploration and evaluation assets	4	473,787	226,401
Impairment of oil and gas exploration and evaluation assets	5	1,147,015	-
		1,620,802	226,401
Comprehensive loss		\$ 2,093,059	\$ 893,185
Loss per share – basic and diluted	8	\$ (0.71)	\$ (0.43)

Echelon Petroleum Corp.
(formerly Rara Terra Minerals Corp.)
Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(Expressed in Canadian Dollars)

	Notes	Share capital		Share-based payment reserve	Deficit	Total
		Number of shares	Amount			
Balance at March 31, 2012		2,163,320	\$ 2,603,099	\$ 269,875	\$ (987,155)	\$ 1,885,819
Comprehensive loss		-	-	-	(893,185)	(893,185)
Shares issued for cash – private placement	8	682,000	767,250	-	-	767,250
Share issue costs	8	-	(9,172)	-	-	(9,172)
Shares issued to acquire exploration and evaluation assets	4,8	33,000	21,450	-	-	21,450
Shares issued in connection to finders fees	5,8	49,375	44,437	-	-	44,437
Shares issued for cash – option exercise	8	12,000	15,754	(6,754)	-	9,000
Revaluation of warrants	8	-	-	80,037	(80,037)	-
Balance at March 31, 2013		2,939,695	3,442,818	343,158	(1,960,377)	1,825,599
Comprehensive loss					(2,093,059)	(2,093,059)
Shares issued to acquire exploration and evaluation assets	4,8	7,667	8,700	-	-	8,700
Balance at March 31, 2014		2,947,362	\$ 3,451,518	\$ 343,158	\$ (4,053,436)	\$ (258,760)

See accompanying notes to the consolidated financial statements

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

	Year ended	
	March 31, 2014	March 31, 2013
Operating activities		
Net loss	\$ (2,093,059)	\$ (893,185)
Adjustments for non-cash items:		
Impairment of mineral exploration and evaluation assets	473,787	226,401
Impairment of oil and gas exploration and evaluation assets	1,147,015	-
Changes in non-cash working capital items:		
GST receivable	17,163	99,795
Prepaid expenses	8,248	(1,000)
Accounts payables and accrued liabilities	238,803	25,659
Due to related parties	-	(3,291)
Net cash flows used in operating activities	(208,043)	(545,621)
Investing activities		
Mineral exploration and evaluation expenditures	(3,890)	(208,398)
Oil and gas exploration and evaluation expenditures	(30,489)	(1,072,089)
Net cash flows used in investing activities	(34,379)	(1,280,487)
Financing activities		
Proceeds received for shares issued, net of issuance costs	-	767,078
Net cash flows from financing activities	-	767,078
Decrease in cash	(242,422)	(1,059,030)
Cash, beginning	271,331	1,330,361
Cash, ending	\$ 28,909	\$ 271,331
Non-cash transaction:		
Fair value of shares issued for acquisition of mineral exploration and evaluation assets	\$ 8,700	\$ 21,450
Fair value of shares issued for acquisition of oil and gas exploration and evaluation assets	\$ -	\$ 44,437

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 in May 2011 completed its Qualifying Transaction 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 business of exploring resource properties.

The head office and principal address is located at 1030 West Georgia Street, Suite 1012, Vancouver, British Columbia, Canada, V6E 2Y3. The records and registered office is located at 885 West Georgia Street Suite 800, Vancouver, British Columbia, Canada, V6C 3H1.

These 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 March 31, 2014 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 and or the private placement of common shares.

2. Significant accounting policies and basis of preparation

The consolidated financial statements were authorized for issue on July 29, 2014 by the directors of the Company.

Statement of compliance with International Financial Reporting Standards

The consolidated financial statements of the Company comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of preparation

The consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The consolidated financial statements are presented in Canadian dollars unless otherwise noted.

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

Consolidation

The 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*	
		March 31, 2014	March 31, 2013
0960128 B.C. LTD.	Canada	100%	100%

*Percentage of voting power is in proportion to ownership.

During the years ended March 31, 2014 and 2013, the Company's subsidiary, 0960128 BC LTD, was inactive.

Significant estimates and assumptions

The preparation of the Company's 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, fair value measurements for financial instruments, and the recoverability and measurement of deferred tax assets.

Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgment applied in preparing the Company's financial statements is the assessment of the Company's ability to continue as a going concern.

Exploration and evaluation expenditures

Exploration and evaluation expenditures include the costs of acquiring licenses and the costs associated with exploration and evaluation activity. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Exploration and evaluation assets are tested for impairment if facts or circumstances indicate that impairment exists. Examples of such facts and circumstances are as follows:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

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

Exploration and evaluation expenditures (cont'd)

- substantive expenditure on further exploration for and evaluation of resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of resources in the specific area have not led to the discovery of commercially viable quantities of resources and the entity has decided to discontinue such activities in the specific area; and
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Once the technical feasibility and commercial viability of the extraction of oil and gas or mineral resources in an area of interest are demonstrable, exploration and evaluation expenditures attributable to that area of interest are first tested for impairment and then reclassified to mining property or oil and gas property and development assets within property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve. The fair value of options is determined using the Black-Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

Financial instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

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

Financial instruments (cont'd)

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Company with significant financial assets is managed by key management personnel on a fair value basis in accordance with a risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

Income taxes

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

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

Income taxes (cont'd)

Current income tax (cont'd):

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:

Deferred income tax is provided using the asset and liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Flow-through shares:

Any premium received by the Company on the issuance of flow-through shares is initially recorded as a liability ("flow-through tax liability"). Upon renouncement by the Company of the tax benefits associated with the related expenditures, a deferred tax liability is recognized and the flow-through tax liability will be reversed. To the extent that suitable deferred tax assets are available, the Company will reduce the deferred tax liability and record a deferred tax recovery or other income.

Restoration and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to exploration and evaluation assets along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other mining or oil and gas assets.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements. These changes are recorded directly to mining or oil and gas assets with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period.

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

Restoration and environmental obligations (cont'd)

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for exploration and evaluation assets.

Foreign currency translation

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The financial statements are presented in Canadian dollars which is the Company's functional and presentation currency.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive loss in the statement of comprehensive loss to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive loss. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

3. Accounting standards issued but not yet effective

New standard IFRS 9 "Financial Instruments"

This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

Amendments to IAS 32 "Financial Instruments: Presentation"

These amendments address inconsistencies when applying the offsetting requirements, and is effective for annual periods beginning on or after January 1, 2014.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on its consolidated financial statements.

3. Accounting standards issued but not yet effective (cont'd)

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

4. Mineral exploration and evaluation assets

	Xeno Property	Lonnie Property	Total for year ended March 31, 2014	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	(212,850)	(3,200)	(216,050)	(57,894)
Balance, Ending	-	-	-	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	(24,699)	-	(24,699)	(18,969)
Write-off	(257,737)	-	(257,737)	(168,507)
Balance, ending	-	-	-	265,847
Total	\$ -	\$ -	\$ -	\$ 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 referred to as the Xeno property in British Columbia, Canada for the following consideration:

- \$14,500 upon signing of the agreement (paid);
- \$12,500 (paid) and 10,000 common shares upon approval of the Exchange (issued with a fair value of \$18,750);
- \$10,000 (paid) and 6,667 common shares (issued with a fair value of \$4,500) on the 1st anniversary of the Exchange approval date; and
- \$10,000 (paid) and 6,667 (issued with a fair value of \$7,500) common shares on the 2nd anniversary of the Exchange approval date (Note 8).

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

- \$28,000 upon signing of the agreement (paid);
- \$28,000 (paid) and 10,000 common shares upon approval of the Exchange (issued with a fair value of \$18,750); and
- \$50,000 (paid) and 15,333 common shares (issued with a fair value of \$10,350) on the 1st anniversary of the Exchange approval date.

4. Mineral exploration and evaluation assets (cont'd)

Xeno Property, British Columbia (cont'd)

During the year ended March 31, 2013, the Company staked an additional 2,099 hectares located contiguous to the Xeno Property.

During the year ended March 31, 2014, the Company decided not to continue with the property and recognized an impairment loss of \$470,587.

Lonnie Property, British Columbia

On January 31, 2011, the Company entered into an option agreement to acquire a 60% interest in certain mining claims referred to as the Lonnie Property in British Columbia, Canada 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:
 - 10,000 on or before May 5, 2011 (issued with a fair value of \$20,625);
 - 10,000 on or before May 5, 2012 (issued with a fair value of \$6,000);
 - 10,000 on or before May 5, 2013; and
 - 8,000 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 1,000 shares (issued with a fair value of \$2,062) on the acceptance date of May 5, 2011;
- Cash payments of \$2,000 (paid) and issuance of 1,000 shares (issued with a fair value of \$600) on May 5, 2012;
- Cash payments of \$2,000 (paid) and issuance of 1,000 shares (issued with a fair value of \$1,200); on May 5, 2013 (Note 8); and
- Issuance of 1,000 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 year ended March 31, 2014, the Company recorded an impairment loss of \$3,200 to write off additional costs for the Lonnie Property.

5. Oil and gas exploration and evaluation assets

	Total for year ended March 31, 2014	Total for year ended March 31, 2013
Trego Property		
Acquisition costs:		
Balance, beginning	\$ 439,464	\$ -
Additions	-	439,464
Impairment	(439,464)	-
Balance, ending	-	439,464
Exploration and evaluation expenditures:		
Balance, beginning	677,062	-
Additions	30,489	677,062
Impairment	(707,551)	-
Balance, ending	-	677,062
Total	\$ -	\$ 1,116,526

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 49,375 common shares with a fair value of \$44,437 pursuant to a finder’s agreement between the finder and the Company (Note 8).

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 property investigation costs on the statement of comprehensive loss for the year ended March 31, 2013 as the Company had not yet obtained the legal right to explore.

During the year ended March 31, 2014, the Company earned \$1,371 in net revenues from oil sales from production on the Trego Property.

During the year ended March 31, 2014, the Company decided not to continue with the Trego Property and recognized an impairment loss of \$1,147,015.

6. Accounts payables and accrued liabilities

	March 31, 2014	March 31, 2013
Accounts payable	\$ 91,133	\$ 24,782
Accrued liabilities (Note 7)	196,788	24,336
	\$ 287,921	\$ 49,118

7. Related party transactions

Related party balances:

The following amounts are due to related parties and included in accounts payable and accrued liabilities (Note 6):

	March 31, 2014	March 31, 2013
Directors of the Company	\$ 138,600	\$ -

These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

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

	Years ended	
	March 31, 2014	March 31, 2013
Consulting fees	\$ 238,667	\$ 273,000
Rent	42,000	41,891
	\$ 280,667	\$ 314,891

Key management personnel compensation

	Years ended	
	March 31, 2014	March 31, 2013
Consulting fees	\$ 238,667	\$ 273,000

8. Share capital

Authorized share capital

Unlimited number of common shares without par value.

Share consolidation

Effective June 2, 2014, the Company consolidated its shares on a 7.5:1 basis. All share and per share numbers disclosed reflect post-consolidation amounts.

Issued share capital

At March 31, 2014 there were 2,947,362 issued and fully paid common shares (March 31, 2013 – 2,939,695).

8. Share Capital (cont'd)

Share issuance for private placements

During the year ended March 31, 2013, the Company completed a non-brokered private placement of 682,000 common shares at \$1.125 per share for total proceeds of \$767,250. The Company incurred \$9,172 in share issuance costs related to this issuance.

Share issuances for mineral and oil and gas exploration and evaluation assets

During the year ended March 31, 2014, the Company issued 6,667 common shares with a fair value of \$7,500 as part of the purchase price of the Xeno Property (Note 4).

During the year ended March 31, 2014, the Company issued 1,000 common shares with a fair value of \$1,200 as finders' fees for the Lonnie Property (Note 4).

During the year ended March 31, 2013, the Company issued 22,000 common shares at a fair value of \$14,850 as part of the purchase price of the Xeno property (Note 4).

During the year ended March 31, 2013, the Company issued 10,000 common shares at a fair value of \$6,000 as part of the purchase price of the Lonnie property (Note 4). Further, the Company issued 1,000 common shares with a fair value of \$600 as finders' fees for the Lonnie Property (Note 4).

During the year ended March 31, 2013, the Company issued 49,375 common shares at a fair value of \$44,437 as finders fees related to the purchase of a working interest in the Trego County Oil and Gas Property, Kansas (Note 5).

Share issuances for exercise of options

During the year ended March 31, 2013, the Company issued 12,000 common shares for exercise of stock options at \$0.75 per share for total proceeds of \$9,000. A reversal of share-based payment reserves of \$6,754 was recorded in relation to the exercise of 12,000 stock options.

Basic and diluted loss per share

The calculation of basic and diluted loss per share for the year ended March 31, 2014 was based on the loss attributable to common shareholders of \$2,093,059 (2013 - \$973,222) and the weighted average number of common shares outstanding of 2,945,482 (2013 - 2,258,562). The loss attributable to common shareholders is made up of the comprehensive loss for the year ended March 31, 2013 of \$893,185 and the incremental increase in the fair value of the warrants of \$80,037 charged to deficit.

Diluted loss per share for the year ended March 31, 2014 did not include the effect of 119,587 stock options as the effect would be anti-dilutive.

Escrow Shares

At March 31, 2014, there were 45,000 shares (2013 - 135,000) in escrow which were released on May 5, 2014 (Note 11).

8. Share Capital (cont'd)

Stock options

On March 3, 2010, the directors of the Company consented to adopt a Company Share Option Plan (the "Plan"). The shareholders of the Company approved the Plan on September 8, 2011. The Plan provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the common shares outstanding at the time of the granting of options. Such options may be exercisable for a period of up to 10 years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any individual director or officer will not exceed five 5% of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, or consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option.

The changes in options during the years ended March 31, 2014 and 2013 are as follows:

	Year ended March 31, 2014		Year ended March 31, 2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning	151,213	\$ 1.58	163,213	\$ 1.50
Options granted	-	-	-	-
Options exercised	-	-	(12,000)	0.75
Options expired	(47,053)	1.95	-	-
Options forfeited	-	-	-	-
Options outstanding, ending	104,160	\$ 1.40	151,213	\$ 1.58

Details of options outstanding as at March 31, 2014 are as follows:

Exercise price	Remaining contractual life	Number of options outstanding
\$0.75	1.41 years	48,000
\$1.95	2.09 years	68,160
		104,160

At March 31, 2014, the weighted average remaining contractual life of options outstanding was 1.78 years.

8. Share Capital (cont'd)

Warrants

The changes in warrants during the years ended March 31, 2014 and 2013 are as follows:

	Year ended March 31, 2014		Year ended March 31, 2013	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Warrants outstanding, beginning	606,160	\$ 2.93	646,181	\$ 2.85
Warrants granted	-	-	-	-
Finder's warrants	-	-	-	-
Warrants exercised	-	-	-	-
Warrants expired	(606,160)	2.93	(40,021)	1.88
Warrants outstanding, ending	-	\$ -	606,160	\$ 2.93

During the year ended March 31, 2013, the Company extended the contractual life of 606,160 warrants by 1 year to November 3, 2013. The incremental increase in the fair value of these warrants was calculated to be \$80,037. This increase was charged to deficit. The incremental increase was calculated using the Black-Scholes Option Pricing Model and the following assumptions: expected life 1.15 years; volatility 157%; risk-free interest rate – 1.04%; and dividend rate – 0%.

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.

9. Financial risk and capital management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in a bank account. The cash is deposited in a bank account held with a major bank in Canada. As the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. The Company's secondary exposure to risk is on its GST receivable. This risk is minimal as the receivables are due from the Government of Canada.

9. Financial risk and capital management (cont'd)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding. Liquidity risk is assessed as high.

The Company's non-derivative financial liabilities at March 31, 2014, which include accounts payable, are due within one year.

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is exposed to currency risk as it incurs expenditures that are denominated in United States dollars while the functional currency is the Canadian dollar.

The following is an analysis of the Canadian dollar equivalent of financial assets and liabilities that are denominated in United States dollars:

	March 31, 2014	March 31, 2013
Accounts payable	\$ 37,231	\$ 2,429

Based on the above net exposures, as at March 31, 2014, a 10% change in the United States dollar to Canadian dollar exchange rate would impact the Company's net loss by \$3,723.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash on hand is subject to minimal interest rate risk.

Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, comprising share capital and working capital. There were no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

	March 31, 2014	March 31, 2013
Cash	\$ 28,909	\$ 271,331

9. Financial risk and capital management (cont'd)

Financial liabilities included in the statement of financial position are as follows:

	March 31, 2014	March 31, 2013
Non-derivative financial liabilities:		
Accounts payable	\$ 91,133	\$ 24,782

Fair value

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Financial instruments classified as level 1 – quoted prices in active markets include cash.

10. Income tax expense and deferred tax assets and liabilities

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	Year ended March 31, 2014	Year ended March 31, 2013
Net loss	\$ (2,093,059)	\$ (893,185)
Statutory tax rate	26%	25%
Expected income tax recovery at the statutory tax rate	(544,195)	(223,296)
Non-deductible items and other	(29,079)	10,941
Effect of change in tax rates	(17,122)	-
Share issuance costs not recognized	-	(2,293)
Change in valuation allowance	590,396	214,648
Income tax recovery	\$ -	\$ -

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

	March 31, 2014	March 31, 2013
Non-capital loss carry-forwards	\$ 1,817,800	\$ 1,512,306
Exploration and evaluation assets	1,985,974	13,564
Share issuance costs	113,352	186,356
	\$ 3,917,126	\$ 1,712,226

10. Income tax expense and deferred tax assets and liabilities (cont'd)

The tax pools relating to these deductible temporary differences expire as follows:

	Canadian non-capital losses	Canadian resource pools	Share issue costs
2030	\$ 9,914	\$ -	\$ -
2031	157,989	-	-
2032	604,615	-	-
2033	524,874	-	-
2034	520,408		
No expiry	-	1,985,974	113,352
	\$ 1,817,800	\$ 1,985,974	\$ 113,352

11. Subsequent events

The following events occurred subsequent to March 31, 2014:

- a) Effective June 2, 2014, the Company consolidated its common shares on a 7.5:1 basis (Note 8);
- b) On May 26, 2014, the Company entered into cancellation and release agreements with four former directors of the Company, which cancelled debts totaling \$182,500. As at March 31, 2014, \$138,600 is included in accounts payable and accrued liabilities relating to these directors;
- c) On May 26, 2014, the Company entered into a cancellation and release agreement with a company controlled by a director the Company, which cancelled a debt of \$63,750. As at March 31, 2014, \$51,188 is included in accounts payable and accrued liabilities relating to this company;
- d) On May 26, 2014, 104,160 stock options were cancelled as a result of director resignations; and
- e) On May 5, 2014, the remaining 45,000 escrow shares were released (Note 8).