ECHELON PETROLEUM CORP.

Consolidated Financial Statements

Year Ended March 31, 2015

Expressed in Canadian Dollars

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Echelon Petroleum Corp.:

We have audited the accompanying consolidated financial statements of Echelon Petroleum Corp., which comprise the consolidated statements of financial position as at March 31, 2015 and 2014, and the consolidated statements of comprehensive loss, changes in shareholders' deficit 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, 2015 and 2014, 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 Echelon Petroleum Corp.'s ability to continue as a going concern.

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DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, B.C.
February 23, 2016

Echelon Petroleum Corp.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Notes	March 31, 2015	March 31, 2014
ASSETS			
Current assets			
Cash		$ 1,061	$ 28,909
Prepaid expenses		-	252
GST receivable		807	-
TOTAL ASSETS		**$ 1,868**	**$ 29,161**
LIABILITIES			
Current liabilities			
Accounts payables and accrued liabilities	6,7	$ 136,000	$ 287,921
TOTAL LIABILITIES		**136,000**	**287,921**
SHAREHOLDERS' DEFICIT			
Share capital	8	3,451,518	3,451,518
Share- based payment reserve	8	343,158	343,158
Deficit		(3,928,808)	(4,053,436)
TOTAL DEFICIT		**(134,132)**	**(258,760)**
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT		**$ 1,868**	**$ 29,161**

Going concern (Note 1)

On behalf of the board:

"Eric Boehnke"
Eric Boehnke, Director

"John Legg"
John Legg, Director

Echelon Petroleum Corp.
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

	Notes	Years ended March 31, 2015	March 31, 2014
Revenues			
Oil sales, net	5	$ -	$ 1,371
Expenses			
Consulting and management fees	7	58,812	320,667
General and administrative		5,484	21,805
Investor relations		-	5,375
Professional fees	7	16,357	48,367
Rent	7	10,150	42,000
Transfer agent and filing fees		28,052	20,196
Travel and promotion		8,954	15,218
		(127,809)	(473,628)
Other items			
Gain on settlement of accounts payable		252,437	-
Impairment of mineral exploration and evaluation assets	4	-	(473,787)
Impairment of oil and gas exploration and evaluation assets	5	-	(1,147,015)
		252,437	(1,620,802)
Net and comprehensive income (loss)		**$ 124,628**	**$ (2,093,059)**
Earnings (loss) per share – basic and diluted	8	**$ 0.23**	**$ (3.91)**

Echelon Petroleum Corp.
Consolidated Statement of Changes in Shareholders' Deficit
(Expressed in Canadian Dollars)

		Share capital				
	Notes	Number of shares	Amount	Share-based payment reserve	Deficit	Total
Balance at March 31, 2013		**534,490**	**$ 3,442,818**	**$ 343,158**	**$ (1,960,377)**	**$ 1,825,599**
Net and comprehensive loss					(2,093,059)	(2,093,059)
Shares issued to acquire exploration and evaluation assets	4,8	1,394	8,700	-	-	8,700
Balance at March 31, 2014		**535,884**	**3,451,518**	**343,158**	**(4,053,436)**	**(258,760)**
Net and comprehensive income		-	-	-	124,628	124,628
Balance at March 31, 2015		**535,884**	**$ 3,451,518**	**$ 343,158**	**$ (3,928,808)**	**$ (134,132)**

See accompanying notes to the consolidated financial statements

Echelon Petroleum Corp.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year ended	
	March 31, 2015	**March 31, 2014**
Operating activities		
Net income (loss)	$ 124,628	$ (2,093,059)
Adjustments for non-cash items:		
Impairment of mineral exploration and evaluation assets	-	473,787
Impairment of oil and gas exploration and evaluation assets	-	1,147,015
Gain on settlement of accounts payable	(252,437)	-
Changes in non-cash working capital items:		
GST receivable	(807)	17,163
Prepaid expenses	252	8,248
Accounts payables and accrued liabilities	100,516	238,803
Net cash flows used in operating activities	(27,848)	(208,043)
Investing activities		
Mineral exploration and evaluation expenditures	-	(3,890)
Oil and gas exploration and evaluation expenditures	-	(30,489)
Net cash flows used in investing activities	-	(34,379)
Decrease in cash	(27,848)	(242,422)
Cash, beginning	28,909	271,331
Cash, ending	**$ 1,061**	**$ 28,909**

Non-cash transaction:

Fair value of shares issued for acquisition of mineral exploration and evaluation assets	$ -	$ 8,700

1. Nature and continuance of operations

Echelon Petroleum Corp. (the "Company") was incorporated under the British Columbia Business Corporations Act on December 17, 2009. The Company's shares are listed on the TSX Venture Exchange ("Exchange"). 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. 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 loans from related parties 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 February 23, 2016 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.

Consolidation

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

	Country of	Percentage owned*	
	incorporation	March 31, 2015	March 31, 2014
0960128 B.C. LTD.	Canada	100%	100%

*Percentage of voting power is in proportion to ownership.

During the years ended March 31, 2015 and 2014, the Company's subsidiary, 0960128 BC LTD, was inactive.

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

Significant estimates and assumptions

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

Significant judgments

The preparation of 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 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;
- 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 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.

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

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.

Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the earnings (loss) attributable to common shareholders by the weighted average number of common shares outstanding in the period. 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.

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.

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

Financial instruments *(cont'd)*

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.

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.

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

Income taxes *(cont'd)*

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.

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.

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

Foreign currency translation (cont'd)

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

The IASB or IFRIC have issued pronouncements effective for accounting periods beginning on or after April 1, 2015. Only those that may significantly impact the Company are discussed below:

IFRS 9 Financial Instruments

IFRS 9 contains accounting requirements for financial instruments and replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

- Classification and measurement: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. IFRS 9 introduces a "fair value through other comprehensive income" category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39; however, there are differences in the requirements applying to the measurement of an entity's own credit risk.
- Impairment: IFRS 9 introduces an "expected credit loss" model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- Hedge accounting: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- Derecognition: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Applicable to annual periods beginning on or after January 1, 2018. The Company has not assessed the impact of this pronouncement.

Other pronouncements with future effective dates are not expected to have an impact on the consolidated financial statements of the Company.

(Expressed in Canadian Dollars)

4. Mineral exploration and evaluation assets

	Total for year ended March 31, 2015	Total for year ended March 31, 2014
Acquisition costs:		
Balance, beginning	$ -	$ 195,350
Cash	-	12,000
Shares	-	8,700
Write-off	-	(216,050)
Balance, Ending	-	-
Exploration and evaluation expenditures:		
Balance, beginning	-	265,847
Geophysical survey	-	15,600
Staking	-	989
Tax credit	-	(24,699)
Write-off	-	(257,737)
Balance, ending	-	-
Total	$ -	$ -

Xeno Property, British Columbia

In 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.

During the year ended March 31, 2014, the Company issued 1,212 common shares with a fair value of $7,500 as part of the purchase price of the Xeno Property (Note 8).

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

In 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.,

During the year ended March 31, 2014, the Company issued 182 commons shares with a fair value of $1,200 as finders' fees for the Lonnie Property (Note 8).

In 2013, the Company terminated the option agreement for the Lonnie Property and 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.

(Expressed in Canadian Dollars)

5. Oil and gas exploration and evaluation assets

	Total for year ended March 31, 2015	Total for year ended March 31, 2014
Trego Property		
Acquisition costs:		
Balance, beginning	$ -	$ 439,464
Impairment	-	(439,464)
Balance, ending	-	-
Exploration and evaluation expenditures:		
Balance, beginning	-	677,062
Additions	-	30,489
Impairment	-	(707,551)
Balance, ending	-	-
Total	$ -	$ -

Trego County Property, Kansas, United States

In 2012 the Company entered into an Oil & Gas Turnkey Participation and Operating Agreement with CircleStar Energy Corp. ("Circlestar") for an oil and gas exploration and development prospect located in Trego County, Kansas.

In 2013, the Company entered into an Oil & Gas Turnkey Participation and Operating Agreement with CircleStar for the acquisition of additional interests. 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, 2015	March 31, 2014
Accounts payable (Note 7)	$ 136,000	$ 91,133
Accrued liabilities	-	196,788
	$ 136,000	$ 287,921

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, 2015	March 31, 2014
Directors of the Company	$ 44,837	$ 138,600

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

(Expressed in Canadian Dollars)

7. Related party transactions (cont'd)

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, 2015	**March 31, 2014**
Consulting fees	$ 46,250	$ 238,667
Rent	10,150	42,000
Professional fees	7,500	-
	$ 63,900	$ 280,667

Key management personnel compensation

	Years ended	
	March 31, 2015	**March 31, 2014**
Consulting fees	$ 46,250	$ 238,667
Professional	7,500	-
	$ 53,750	$ 238,667

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. On March 5, 2015, the Company further consolidated its shares on a 5.5:1 basis. All share and per share numbers disclosed in these financial statements reflect post-consolidation amounts.

Issued share capital

At March 31, 2015 and 2014 there were 535,884 issued and fully paid common shares.

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

During the year ended March 31, 2014, the Company issued 1,212 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 182 common shares with a fair value of $1,200 as finders' fees for the Lonnie Property (Note 4).

Basic and diluted loss per share

The calculation of basic earnings per share for the year ended March 31, 2015 was based on the income attributable to common shareholders of $124,628 and the weighted averge number of common shares outstanding of 535,884.

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 and the weighted average number of common shares outstanding of 535,539.

(Expressed in Canadian Dollars)

8. Share capital (cont'd)

Escrow Shares

At March 31, 2015, there were no shares held in escrow. 8,182 shares in escrow were released on May 5, 2014.

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, 2015 and 2014 are as follows:

	Year ended March 31, 2015		Year ended March 31, 2014	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Options outstanding, beginning	18,938	$ 7.70	27,493	$ 8.69
Options expired	-		(8,555)	10.73
Options canceled	(18,938)	(7.70)	-	-
Options outstanding, ending	-	$ -	18,938	$ 7.70

Share-based payment reserve

The share-based payment reserve records items recognized as stock-based compensation expense and other share-based payments until such time that the stock options or 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:

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

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.

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.

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, 2015	March 31, 2014
Accounts payable	$ 29,347	$ 37,231

Based on the above net exposures, as at March 31, 2015, a 10% change in the United States dollar to Canadian dollar exchange rate would impact the Company's net loss by $2,935.

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.

(Expressed in Canadian Dollars)

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

Classification of financial instruments

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

	March 31, 2015	March 31, 2014
Loans and receivables:		
Cash	$ 1,061	$ 28,909

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

	March 31, 2015	March 31, 2014
Non-derivative financial liabilities:		
Accounts payable	$ 136,000	$ 91,133

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, 2015	Year ended March 31, 2014
Net income (loss)	$ 124,628	$ (2,093,059)
Statutory tax rate	26%	26%
Expected income tax expense (recovery) at the statutory tax rate	32,403	(544,195)
Non-deductible items and other	27,811	(29,079)
Effect of change in tax rates	-	(17,122)
Change in valuation allowance	(60,214)	590,396
Income tax recovery	$ -	$ -

(Expressed in Canadian Dollars)

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

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

	March 31, 2015	March 31, 2014
Non-capital loss carry-forwards	$ 1,789,336	$ 1,817,800
Exploration and evaluation assets	1,853,905	1,985,974
Share issuance costs	42,292	113,352
	$ 3,685,533	$ 3,917,126

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

	Canadian non-capital losses	Canadian resource pools	Share issue costs
2031	$ 90,697	$ -	$ -
2032	604,615	-	-
2033	524,874	-	-
2034	545,514	-	-
2035	23,636	-	-
No expiry	-	1,853,905	42,292
	$ 1,789,336	$ 1,853,905	$ 42,292