METALORE RESOURCES LIMITED

FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2015 AND MARCH 31, 2014

METALORE RESOURCES LIMITED
INDEX TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2015 AND MARCH 31, 2014

NPT+ LLP
CHARTERED ACCOUNTANTS
Adding value. Finding balance.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Metalore Resources Limited

We have audited the accompanying financial statements of Metalore Resources Limited, which comprise the statements of financial position as at March 31, 2015 and March 31, 2014 and the statements of operations, retained earnings, comprehensive income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Metalore Resources Limited as at March 31, 2015 and March 31, 2014 and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

NPT LLP

London, Ontario
June 29, 2015

NPT LLP
Chartered Professional Accountants

METALORE RESOURCES LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2015 AND MARCH 31, 2014

	2015	2014
ASSETS		
Current		
Cash and cash equivalents	**$ 211,840**	$ 230,146
Marketable securities *(Note 4)*	**855,825**	1,038,104
Accounts receivable	**177,777**	150,046
Inventory	**30,000**	40,500
Prepaid expenses	**19,039**	-
	1,294,481	1,458,796
Property and equipment *(Note 5)*	**9,803,698**	10,357,499
Exploration and evaluation assets *(Note 6)*	**4,692,436**	4,458,923
	$ 15,790,615	$ 16,275,218
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 136,645**	$ 166,503
Decommissioning obligations *(Note 7)*	**174,069**	133,291
Deferred income tax liabilities	**2,573,900**	2,436,400
	2,884,614	2,736,194
SHAREHOLDERS' EQUITY		
Share capital *(Note 9)*	**2,468,832**	2,468,832
Contributed surplus	**55,073**	55,073
Accumulated other comprehensive income (loss)	**(33,805)**	395,399
Retained earnings	**10,415,901**	10,619,720
	12,906,001	13,539,024
	$ 15,790,615	$ 16,275,218

Commitments *(Note 12)*

Approved on behalf of the Board:

John A. Ryan
Director and CFO

John C. McVicar
Director

METALORE RESOURCES LIMITED

STATEMENT OF OPERATIONS

FOR THE YEARS ENDED MARCH 31, 2015 AND MARCH 31, 2014

	2015	2014
Revenue		
Natural gas sales	**$ 1,053,816**	$ 1,004,856
Royalty income	**2,963**	2,624
Less: Royalties paid	**(104,994)**	(89,953)
Net revenue from natural gas sales	**951,785**	917,527
Expenses		
Depletion and depreciation *(Note 5)*	**360,000**	330,000
Production	**312,606**	377,540
General and administrative	**171,116**	194,815
Transmission tariffs	**67,145**	52,525
Accretion *(Note 7)*	**5,884**	4,628
Share based compensation *(Note 10)*	**-**	18,439
	916,751	977,947
Income (loss) from operations	**35,034**	(60,420)
Other income (expenses)		
Gain on disposal of marketable securities *(Note 4)*	**282,056**	106,646
Investment income	**79,109**	65,042
Asset (impairment) reversal *(Note 5)*	**(389,535)**	371,784
	(28,370)	543,472
Income before income taxes	**6,664**	483,052
Deferred income taxes *(Note 8)*	**137,500**	231,200
Net income (loss)	**$ (130,836)**	$ 251,852
Earnings (loss) per share *(Note 11)*	**$ (0.07)**	$ 0.14
Weighted average number of shares outstanding	**1,775,035**	1,775,035

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED MARCH 31, 2015 AND MARCH 31, 2014

	2015	2014
Net income (loss)	**$ (130,836)**	$ 251,852
Changes in comprehensive income		
Reclassification for realized gains	**(232,512)**	(73,328)
Unrealized gain (loss) on available for sale securities	**(196,692)**	51,698
Comprehensive income (loss)	**$ (560,040)**	$ 230,222

METALORE RESOURCES LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEARS ENDED MARCH 31, 2015 AND MARCH 31, 2014

	2015	2014
Share capital		
Balance, beginning of year	**$ 2,468,832**	$ 2,468,832
Issued	**-**	-
Balance, end of year	**$ 2,468,832**	$ 2,468,832
Contributed surplus		
Balance, beginning of year	**$ 55,073**	$ 36,634
Share based compensation *(Note 10)*	**-**	18,439
Balance, end of year	**$ 55,073**	$ 55,073
Accumulated other comprehensive income (loss)		
Balance, beginning of year	**$ 395,399**	$ 417,029
Reclassification for realized gains	**(232,512)**	(73,328)
Unrealized gain (loss) on available for sale securities	**(196,692)**	51,698
Balance, end of year	**$ (33,805)**	$ 395,399
Retained earnings		
Balance, beginning of year	**$ 10,619,720**	$ 10,438,933
Net income (loss)	**(130,836)**	251,852
Dividends	**(72,983)**	(71,065)
Balance, end of year	**$ 10,415,901**	$ 10,619,720
Total shareholders' equity	**$ 12,906,001**	$ 13,539,024

METALORE RESOURCES LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31, 2015 AND MARCH 31, 2014

	2015	2014
Cash flows from operating activities		
Net income (loss)	**$ (130,836)**	$ 251,852
Items not affecting cash:		
Depletion and depreciation *(Note 5)*	**360,000**	330,000
Asset impairment (reversal) *(Note 5)*	**389,535**	(371,784)
Share based compensation *(Note 10)*	**-**	18,439
Gain on disposal of marketable securities *(Note 4)*	**(282,056)**	(106,646)
Accretion *(Note 7)*	**5,884**	4,628
Deferred income taxes *(Note 8)*	**137,500**	231,200
	480,027	357,689
Changes in non-cash working capital:		
Accounts receivable	**(27,731)**	(56,149)
Inventory	**10,500**	(2,600)
Prepaid expenses	**(19,039)**	-
Accounts payable and accrued liabilities	**(29,858)**	15,885
	(66,128)	(42,864)
	413,899	314,825
Cash flows from investing activities		
Proceeds from sale of marketable securities *(Note 4)*	**377,896**	242,401
Purchase of marketable securities *(Note 4)*	**(342,765)**	(235,083)
Additions to property and equipment *(Note 5)*	**(160,840)**	(135,230)
Additions to exploration and evaluation assets *(Note 6)*	**(233,513)**	(359,843)
	(359,222)	(487,755)
Cash flows from financing activity		
Dividends	**(72,983)**	(71,065)
Decrease in cash and cash equivalents	**(18,306)**	(243,995)
Cash and cash equivalents - beginning of year	**230,146**	474,141
Cash and cash equivalents - end of year	**$ 211,840**	$ 230,146

1. REPORTING ENTITY

Metalore Resources Limited (the "Company") is a junior resource company incorporated and domiciled in Canada dedicated to natural gas production and gold exploration in Ontario. The Company currently operates in one geographic region, Canada. The Company's common shares are listed on the Toronto Stock Exchange and trade under the symbol "MET".

The head office, principal address, registered address and records office of the Company are located at P.O. Box 422, Simcoe, Ontario, N3Y 4L5, Canada.

2. BASIS OF PRESENTATION

(a) Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements were authorized for issue by the Board of Directors on June 29, 2015.

(b) Basis of measurement
The financial statements have been prepared using the historical cost basis of accounting, with the exception of share based payments and financial instruments classified as fair value through profit and loss or available for sale which are measured at fair value.

(c) Functional and presentation currency
These financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgments
The preparation of the financial statements in conformity with IFRS requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the year. These judgments, estimates, and assumptions are based on current trends and all relevant information available to the Company at the time of preparation of the financial statements. As the effect of future events cannot be determined with certainty, the actual results may differ from the estimated amounts.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Significant areas of estimation and assumptions made by management affecting the measurement of balances and transactions in the financial statements include:

Critical accounting judgments
The following are critical judgments management has made in the process of applying the Company’s accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Cash-generating units ("CGU")
The Company’s assets are aggregated into CGUs for the purposes of calculating depletion and depreciation and impairment. CGUs are determined based on the smallest group of assets that generate cash flows independent of other assets or groups of assets. Determination of the CGUs is subject to the Company’s judgment and is based on geographical proximity, shared infrastructure, similar exposure to market risk, and materiality.

(continues)

2. BASIS OF PRESENTATION *(continued)*

Impairment
Judgments are required to assess when impairment indicators exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future natural gas prices, future costs, discount rates, market value of land, and other relevant assumptions.

Exploration and evaluation assets
The application of the Company's accounting policy for exploration and evaluation assets requires the Company to make certain judgments as to future events and circumstances as to whether economic quantities of reserves will be found so as to assess if technical feasibility and commercial viability has been achieved.

Significant estimates
The following are key estimates and assumptions made by the Company affecting the measurement of balances and transactions in the financial statements.

Recoverability of asset carrying values
The recoverability of natural gas property carrying values is assessed at the CGU level. The key estimates used in the determination of cash flows from natural gas reserves include the following:

(i) Reserves – Assumptions that are valid at the time of the reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

(ii) Natural gas prices – Forward price estimates are used in the cash flow model. Commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, inventory levels, exchange rates, weather, and economic and geopolitical factors.

(iii) Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

The key assumptions used in the impairment tests are described in note 5.

Depletion and depreciation
Amounts recorded for depletion and depreciation are based on estimates of total proved and probable natural gas reserves and future development capital. By their nature, the estimates of reserves, including the estimates of future prices, costs, and future cash flows, are subject to measurement uncertainty. Accordingly, the impact on the financial statements in future periods could be material.

Decommissioning obligations
Amounts recorded for decommissioning obligations and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions, and changes in technology. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

(continues)

2. BASIS OF PRESENTATION *(continued)*

Share based compensation
Compensation costs recognized for share based compensation plans are subject to the estimation of what the ultimate value will be using pricing models such as the Black-Scholes pricing model, which is based on significant assumptions such as volatility, expected term, and forfeiture rate.

Deferred income taxes
Deferred income taxes are based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates, and the likelihood of assets being realized. Tax interpretations, regulations, and legislation in the jurisdiction in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Company to all periods presented in these financial statements.

(a) Revenue
Revenue from the sale of natural gas is recorded when the significant risk and rewards of ownership of the product are transferred to the buyer which is usually when legal title passes to the external party, the amount can be estimated reliably, and collection is reasonably assured.

Investment income is recognized when earned.

(b) Cash and cash equivalents
Cash and cash equivalents are comprised of cash and short-term investments that have a fixed maturity date of less than three months from the date of acquisition.

(c) Inventory
Inventory consists of pipe, fittings and processing supplies and is stated at the lower of cost and net realizable value with the cost being determined on a first-in, first-out basis.

(d) Property and equipment and exploration and evaluation assets
The Company is involved in the exploration and evaluation of petroleum and natural gas properties and mineral properties.

Recognition and measurement

Exploration and evaluation expenditures
Pre-licence costs are recognized in profit or loss as incurred.

Exploration and evaluation costs of natural gas properties, including the costs of acquiring undeveloped land and drilling costs, are initially capitalized until the drilling of the well is complete and the results have been evaluated. The costs are accumulated in cost centers by well, field, or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation costs of mineral properties, including licence acquisition costs and all costs associated with mineral property exploration and evaluation activities relating to specific properties, are initially capitalized until those properties are determined to be commercially viable for mineral production. The commercial viability of the Company's mineral property exploration and evaluation assets has not yet been determined.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved or probable reserves are determined to exist. If proved or probable reserves are found, the accumulated exploration and evaluation costs and associated undeveloped land are transferred to natural gas properties or mineral property interests as applicable. The exploration and evaluation costs are reviewed for impairment prior to any such transfer.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to CGUs. The Company has grouped its mineral exploration and evaluation assets into two CGUs: (i) Cedartree Lake, ON; and (ii) Brookbank, ON and its petroleum and natural gas exploration and evaluation assets into one CGU: (i) Norfolk, ON.

Development and production costs
Items of property and equipment, which include natural gas properties, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. The cost of development and production assets includes: transfers from exploration and evaluation assets, which generally include the cost to drill the well and the cost of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the well; facility costs; the cost of recognizing provisions for future restoration and decommissioning obligations; geological and geophysical costs; and directly attributable overhead.

Development and production assets are grouped into CGUs for impairment testing. The Company has grouped its development and production assets into one CGU: (i) Norfolk, ON.

When significant parts of an item of property and equipment, including natural gas properties, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property and equipment, including natural gas properties, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in profit or loss. The carrying amount of any replaced or disposed item of property and equipment is derecognized.

Subsequent costs
Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of natural gas properties are recognized as property and equipment only when they increase the future economic benefits embodied in the specific asset to which they relate. Capitalized property and equipment generally represent costs incurred in developing proved or probable reserves and bringing in or enhancing production from such reserves and are accumulated on a field or geotechnical area basis. The costs of the day-to-day servicing of property and equipment are recognized in production expenses as incurred.

Depletion and depreciation
The net carrying value of natural gas properties is depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account the estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Future development costs are estimated taking into account the level of development required to produce the reserves.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Proved plus probable reserves are estimated at least annually by independent qualified reserve evaluators and represent the estimated quantities of natural gas which geological, geophysical, and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

The Company has determined the estimated useful lives for gas pipelines and compression facilities to be consistent with the reserve lives of the areas for which they serve. As such, the Company includes the cost of these assets within their associated CGU for the purpose of depletion using the unit of production method.

(e) Impairment

Financial assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

Non-financial assets
The carrying amounts of the Company's non-financial assets, other than exploration and evaluation assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment when they are transferred to property and equipment or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal.

Fair value less costs of disposal is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less costs of disposal of natural gas properties is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion projects and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted using an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU. Consideration is given to acquisition metrics of recent transactions completed on similar assets to those contained within the relevant CGU.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Value in use is determined as the net present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use and can only take into account approved future development costs. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices and expected production volumes. The latter takes into account assessments of field reservoir performance and includes expectations about proved and unproved volumes, which are risk-weighted using geological, production, recovery, and economic projections.

An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the assets in the CGUs on a pro rata basis. Impairment losses recognized in prior periods are assessed each reporting date if facts or circumstances indicate that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

(f) Provisions
A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Decommissioning obligations
The Company's activities give rise to dismantling, decommissioning, and site disturbance remediation activities. A provision is made for the estimated cost of abandonment and site restoration and capitalized in the relevant asset category. The capitalized amount is depreciated on a unit of production basis over the life of the associated proved plus probable reserves. Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time, changes in the estimated future cash flows underlying the obligation, and changes in the risk-free rate. The increase in the provision due to the passage of time is recognized as accretion whereas increases or decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

(g) Income tax
Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, they relate to income taxes levied by the same tax authority or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(h) Share based compensation
The Company has a share based compensation plan, which is described in note 10. The Company uses the fair value method for valuing share based compensation. Under this method, the compensation cost attributed to stock options is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon the settlement of the stock options, the previously recognized value in contributed surplus is recorded as an increase to share capital.

(i) Earnings per share
Basic earnings per common share is calculated by dividing the net income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per common share reflects the maximum possible dilution from the potential exercise of stock options, if dilutive.

(j) Jointly controlled operations
Certain of the Company's natural gas activities involve jointly controlled operations. The financial statements include the Company's share of these jointly controlled operations and a proportionate share of the relevant assets, liabilities, revenue and related costs.

(k) General and administrative costs
General and administrative overhead directly associated with the exploration or development of the property is capitalized to the related property in the period incurred. Overhead costs that do not qualify for capitalization are expensed to operations in the period incurred.

(l) Financial instruments

Non-derivative financial instruments
Non-derivative financial instruments comprise cash and cash equivalents, marketable securities, accounts receivable, accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents
Cash and cash equivalents comprised of cash on hand, term deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less, are classified as fair value through profit or loss and are subsequently measured at fair value. Changes in fair value are recognized in the statement of income or loss in the period they arise.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Marketable securities
Marketable securities comprised of investments in common shares and other equity instruments quoted in an active market, are classified as available for sale and are subsequently measured at fair value. Changes in fair value are recognized in other comprehensive income.

Other
Other non-derivative financial instruments, such as accounts receivable, accounts payable and accrued liabilities, are classified as loans and receivables and are subsequently measured at amortized cost using the effective interest method

Derivative financial instruments
The Company does not hold any derivative financial instruments.

Share capital
Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

(m) Comprehensive income
Comprehensive income is defined as the change in equity from transactions, events, and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are not included in net income, such as unrealized gains or losses on available for sale investments.

(n) New standards and interpretations not yet adopted
IFRS 15 Revenue from Contracts with Customers replaces IAS 11, IAS 18 and IFRIC 13. This standard outlines a single comprehensive model for entities to account for revenue arising from contracts with customers. IFRS 15 becomes effective for annual reporting periods beginning on or after January 1, 2017 with early adoption permitted and is to be applied retrospectively. Management is examining the impact of the implementation of this new standard, but at this time, it is not expected that this standard will have any impact on the Company’s results other than some possible additional disclosure in the notes to the financial statements.

The IASB has undertaken a three-phase project to replace IAS 39, Financial Instruments: Recognition and Measurement, with IFRS 9, Financial Instruments. In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

In November 2013, the IASB issued the third phase of IFRS 9 which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporters to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. The Company does not employ hedge accounting for its risk management contracts currently in place. In July 2013, the IASB deferred the mandatory effective date of IFRS 9 and has left this date open pending the finalization of the impairment and classification and measurement requirements. IFRS 9 is still available for early adoption. The full impact of the standard on the Company’s financial statements will not be known until the project is complete.

4. MARKETABLE SECURITIES

A continuity schedule of the fair value of the Company's marketable securities is as follows:

Balance, March 31, 2013	**$ 960,406**
Cost of purchases	**235,083**
Proceeds on disposals	**(242,401)**
Gain on disposal	**106,646**
Fair value adjustment	**(21,630)**
Balance, March 31, 2014	**1,038,104**
Cost of purchases	**342,765**
Proceeds on disposals	**(377,896)**
Gain on disposal	**282,056**
Fair value adjustment	**(429,204)**
Balance, March 31, 2015	**855,825**

5. PROPERTY AND EQUIPMENT

	Natural gas properties	Land	
Cost			
Balance, March 31, 2013	$ 15,710,290	$ 130,000	$ 15,840,290
Additions	135,230	-	135,230
Changes to decommissioning obligation estimates	10,386	-	10,386
Balance, March 31, 2014	15,855,906	130,000	15,985,906
Additions	160,840	-	160,840
Changes to decommissioning obligation estimates	34,894	-	34,894
Balance, March 31, 2015	**$ 16,051,640**	**$ 130,000**	**$ 16,181,640**
Accumulated Depletion, Depreciation and Impairment			
Balance, March 31, 2013	$ 5,670,191	$ -	$ 5,670,191
Depletion and depreciation	330,000	-	330,000
Impairment reversal	(371,784)	-	(371,784)
Balance, March 31, 2014	5,628,407	-	5,628,407
Depletion and depreciation	360,000	-	360,000
Impairment	389,535	-	389,535
Balance, March 31, 2015	**$ 6,377,942**	**$ -**	**$ 6,377,942**
Net Book Value			
March 31, 2013	$ 10,040,099	$ 130,000	$ 10,170,099
March 31, 2014	10,227,499	130,000	10,357,499
March 31, 2015	**9,673,698**	**130,000**	**9,803,698**

The Company owns and/or controls approximately 40,000 acres of petroleum, natural gas and mineral leases in Charlotteville, Walsingham and Houghton townships in Norfolk County, Ontario.

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5. PROPERTY AND EQUIPMENT *(continued)*

Depletion and depreciation

The calculation of depletion and depreciation expense for the year ended March 31, 2015 included an estimated $893,000 (March 31, 2014 – $1,017,000) for future development costs associated with proved plus probable undeveloped reserves.

Impairments

At March 31, 2014 the Company recorded a reversal of impairment of its natural gas properties of $371,784 mainly as a result of increases in forecasted natural gas prices and revisions in the assumptions used in the impairment test. The impairment test at March 31, 2014 was primarily based on the net present value of cash flows from natural gas reserves at a pre-tax discount rate of 8.5 percent.

At March 31, 2015 the Company recorded an impairment of its natural gas properties of $389,535 mainly as a result of as a result of weakening natural gas prices. The impairment test at March 31, 2015 was primarily based on the net present value of cash flows from natural gas reserves at a pre-tax discount rate of 8.5 percent.

6. EXPLORATION AND EVALUATION ASSETS

Balance, March 31, 2013	$ 4,099,080
Additions	359,843
Balance, March 31, 2014	4,458,923
Additions	233,513
Balance, March 31, 2015	**$ 4,692,436**

Exploration and evaluation assets consist of the Company's exploration projects which are pending the determination of technical feasibility and commercial viability. The Company holds a 1% net smelter return on 18 claims in the Brookbank and Beardmore area of Ontario and a 21-26% participating interest in over 600 contiguous claims in Sandra, Irwin, Walters, Leduc, and LeGault townships in Northwestern Ontario the majority of which are subject to a working option agreement with Premier Gold Mines Limited. The Company also owns a 100% interest in 306 mining claims in the Sioux Narrows (Cedartree Lake) area of Northwestern Ontario. During the year ended March 31, 2015, the Company commenced activities related to the exploration and evaluation of deep, high pressure petroleum and natural gas targets in Norfolk County, Ontario.

Additions represent the Company's costs incurred on exploration and evaluation assets during the year, consisting primarily of geophysics and drilling. Included in additions during the year ended March 31, 2015 were additions of $69,705 related to the Cedartree Lake property and $2,110 related to the Brookbank property. Included in additions during the year ended March 31, 2014 were additions of $357,637 related to the Cedartree Lake property and $2,205 related to the Brookbank property. Also included in additions during the year ended March 31, 2015 were additions of $161,698 related to the petroleum and natural gas targets in Norfolk County, Ontario.

Impairments

Exploration and evaluation assets are assessed for impairment when they are transferred to property and equipment or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Management has reviewed each of these projects and has determined that no impairment existed at March 31, 2015 or March 31, 2014.

7. DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from its ownership interest in petroleum and natural gas assets including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to abandon and reclaim the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows (adjusted for inflation at 2.0% per year) required to settle the decommissioning obligations at March 31, 2015 is approximately $877,561 (March 31, 2014 – $895,119) which is estimated to be incurred over the next 63 years. At March 31, 2015, a risk-free rate, adjusted for credit and risks specific to the liability of 5.5% (March 31, 2014 – 6.5%) was used to calculate the net present value of the decommissioning obligations.

		2015		2014
Balance, beginning of year	**$**	**133,291**	$	118,277
Accretion		**5,884**		4,628
Revisions		**34,894**		10,386
Balance, end of year	**$**	**174,069**	$	133,291

8. INCOME TAXES

The provision for income taxes recorded in the financial statements reflects an effective tax rate which differs from the expected statutory tax rate of 26.50% (March 31, 2014 – 26.50%). The differences were accounted for as follows:

		2015		2014
Income before income taxes	**$**	**6,664**	$	483,052
Expected income tax expense (reduction) at statutory income tax rate	**$**	**(1,800)**	$	(128,100)
Increase (decrease) in income taxes resulting from:				
Effect of tax rate change		**-**		116,400
Effect of changes in transitional and resource credits		**94,000**		10,200
Increase (reduction) in valuation allowance		**-**		(39,300)
Capital transactions		**37,400**		14,100
Other		**7,900**		1,800
	$	**137,500**	$	231,200

Tax benefits in excess of any current income are reflected in the calculation of the future income tax liability. The tax pool balances available in perpetuity to reduce future taxable income, are as follows:

Cumulative Canadian exploration expenses	$ 2,844,562
Cumulative Canadian development expenses	301,875
Cumulative Canadian oil and gas property expenses	419,192
Foreign exploration and development expenses	1,677
Undepreciated capital costs - property and equipment	734,535
	$ 4,301,841

The Company has a capital loss of $14,342 available for application against future years' capital gains with no expiry date. The Company has also incurred non-capital losses of $326,715 which are available to reduce future taxable income. The losses expire as follows $780 in 2030, $49,257 in 2032, $92,023 in 2033, $169,594 in 2034 and $15,098 in 2035.

The Company has accumulated corporate minimum tax credits of $140,000. The tax benefits of these credits has not been recognized due to the uncertainty of realizing this benefit within the carryforward period.

9. SHARE CAPITAL

The Company is authorized to issue 4,000,000 common shares without par or nominal value. At March 31, 2015 and March 31, 2014 there were 1,775,035 common shares issued and outstanding. The Company did not issue, redeem or repurchase any shares during the years ended March 31, 2015 or March 31, 2014.

10. SHARE BASED COMPENSATION

Options were granted to all officers and directors during the year ended March 31, 2014. The Company has a stock option plan which was amended on May 23, 2013. The plan permits up to 53,000 common shares to be reserved for the granting of the options. At the beginning of the year, there were no unexpired options from the previous issuance and 33,000 remain outstanding.

The Company uses the fair value method to account for all stock-based awards. The estimated fair value of these stock options was determined using the Black Scholes option pricing model estimated at the date of the grant using the following assumptions: weighted average share price $3.30, exercise price $5.00, expected volatility 39.89%, option life 4 years, risk free interest rate 1.07%, expected dividend yield 1.28%.

11. EARNINGS PER SHARE

	2015	**2014**
Net income (loss)	**$ (130,836)**	$ 251,852
Weighted average number of shares outstanding	**1,775,035**	1,775,035
Earnings (loss) per share - basic and diluted	**$ (0.07)**	$ 0.14

For the year ended March 31, 2015, 33,000 stock options (March 31, 2014 – 33,000) were anti-dilutive and were not included in the diluted earnings per share calculation.

12. COMMITMENTS

The Company is party to natural gas and mining lease commitments requiring ongoing annual compensation payments in the amount of $36,600 (March 31, 2014 – $10,000). The leases allow for the surrender of the agreement and termination of payment at the option of the lessee. In addition to the lease commitments there are royalty amounts ultimately payable pursuant to these agreements which are dependent on production and development, making it impracticable to disclose the amount of contractual commitments.

The Company has an outstanding letter of guarantee in the amount of $70,000 (March 31, 2014 – $70,000) that is required under the Regulations prescribed by the Ministry of Natural Resources for the future abandonment of gas wells.

13. CREDIT FACILITY

The Company has available a revolving credit facility with a Canadian chartered bank in the amount of $500,000 bearing interest at RBC prime plus 0.5%. There was no balance outstanding on this facility at the end of March 31, 2015 or March 31, 2014.

14. RELATED PARTY TRANSACTIONS

Related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed to be the related parties.

The Company has an agreement Southern Ontario Natural Gas Limited (SONG), a private company controlled by the Company's president, George W. Chilian, to provide technical services for the gas operations for an annual fee of $78,000 plus 10% of the Company's annual gas revenue in excess of $1,000,000. Effective October 1, 2011 through March 31, 2015, this annual fee has been waived.

The Company and SONG also have joint ownership (52% and 48% respectively) in natural gas properties in Houghton Township, Ontario. The Company collects the proceeds for all of the gas produced from this natural gas property and provides SONG with its proportionate share of the revenue. The Houghton battery has been shut in for the past nine years due to a lack of market demand.

As at March 31, 2015 SONG owed the Company $-nil (March 31, 2014 – $3,033) for Houghton Township well site leases paid by the Company.

The Company purchased accounting and consulting services in the amount of $2,251 (March 31, 2014 – $2,850) from a business owned by an officer of the Company.

The compensation paid to directors of the Company was $6,065 (March 31, 2014 – $6,571) and the compensation paid to the President and Chief Executive Officer was $135,600 (March 31, 2014 – $135,600). The President and Chief Executive Officer was not paid short-term employee benefits, post-employment benefits, termination benefits or other long-term benefits during the years ended March 31, 2015 or March 31, 2014.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities

The fair value of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities at March 31, 2015 approximated their carrying value due to their short term to maturity.

The Company classified the fair value of its financial instruments at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 – observable inputs, such as quoted market prices in active markets
- Level 2 – inputs, other than the quoted market prices in active markets, which are observable, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability in which little or no market data exists, therefore requiring an entity to develop its own assumptions

The fair values of cash and cash equivalents and marketable securities as shown in the statement of financial position as at March 31, 2015 are measured using level 1. Accounts receivable, accounts payable and accrued liabilities as shown in the statement of financial position as at March 31, 2015 are measured using level 2. During the year ended March 31, 2015, there were no transfers between level 1, level 2, and level 3 classified assets and liabilities.

16. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities. The Company employs risk management strategies and policies to ensure that any exposure to risk is in compliance with the Company's business objectives and risk tolerance levels. Risk management is ultimately established by the Board of Directors and is implemented by management. There have been no significant changes in the nature or concentration of the risk exposure from the prior year unless other noted

Market risk
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of foreign currency risk, interest rate risk, and other price risk, such as commodity price risk. The objective of market risk management is to manage and control market price exposures within acceptable limits, while maximizing returns. The Company may use physical delivery sales contracts to manage market risks. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

Foreign exchange risk
The prices received by the Company for the production of natural gas are primarily determined in reference to US dollars, but are settled with the Company in Canadian dollars. The Company's cash flow from commodity sales will therefore be impacted by fluctuations in foreign exchange rates.

Interest rate risk
The Company is exposed to interest rate risk primarily through its floating interest rate credit facility (note 13).

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16. FINANCIAL RISK MANAGEMENT *(continued)*

Commodity price risk

Natural gas prices are impacted by not only the relationship between the Canadian and US dollar but also by world economic events that dictate the levels of supply and demand. The Company's cash flow from natural gas sales will therefore be impacted by fluctuations in commodity prices. In order to mitigate commodity price risk, the Company enters into forward strip contracts for a certain number of months in advance.

Credit risk

Credit risk represents the financial loss that the Company would suffer if the Company's counterparties to a financial asset fail to meet or discharge their obligation to the Company. Substantially all of the Company's accounts receivable are with customers in the natural gas industry and are subject to normal industry credit risks. The Company generally grants unsecured credit but routinely assesses the financial strength of its customers.

The Company sells the majority of its production to three petroleum and natural gas marketers and therefore is subject to concentration risk. Historically, the Company has not experienced any collection issues with its petroleum and natural gas marketers. The Company does not typically obtain collateral from petroleum and natural gas marketers.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's processes for managing liquidity risk include ensuring, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due. The Company prepares annual, quarterly, and monthly capital expenditure budgets, which are monitored and updated as required, and requires authorizations for expenditures on projects to assist with the management of capital. In managing liquidity risk, the Company ensures that it maintains sufficient levels of working capital.

The company expects the following maturities of its financial liabilities as at March 31, 2015:

	1 Year	1-2 Years	2-3 Year	3-4 Years	4-5 Years	Thereafter
Accounts payable and accrued liabilities	$ 136,645	$ -	$ -	$ -	$ -	$ -
Decommissioning obligations	-	-	-	-	-	147,069
	$ 136,645	$ -	$ -	$ -	$ -	$ 147,069

17. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to protect the Company's ability to continue as a going concern so that it can continue to provide an appropriate return to shareholders relative to the risk of the Company's mineral exploration and evaluation assets, natural gas properties and marketable securities.

The Company considers its capital structure to include shareholders' equity and its revolving credit facility (note 13). The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets noted above. In order to maintain or adjust the capital structure, the Company may issue new shares, seek external financing or adjust its capital expenditures and other investment programs.

The Company does not have any externally imposed capital requirements. The Company's main objective is to ensure sufficiency of working capital to fund operations and investment activities. Working capital is defined as current assets less current liabilities. At March 31, 2015, the Company's working capital was $1,157,836 (March 31, 2014 – $1,292,293).