Canoel International Energy Ltd.

Consolidated Financial Statements

As at and for the year ended March 31, 2014 and 2013

Managements' Responsibility

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that the transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of the consolidated financial statements.

The Board of Directors, through its Audit Committee is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, the Audit Committee and management to discuss their audit findings.

(signed)"Andrea Cattaneo"
President and Chief Executive Officer

(Signed)"Luigi Regis Milano"
Chief Financial Officer

June 23, 2014

Calgary, Alberta

Independent Auditors' Report

To the Shareholders of Canoel International Energy Ltd.:

We have audited the accompanying consolidated financial statements of Canoel International Energy Ltd. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at March 31, 2014 and 2013 and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity 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 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 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 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 financial statements. The procedures selected depend on the auditors' 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 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 Canoel International Energy Ltd. and its subsidiaries as at March 31, 2014 and 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter – Going Concern
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that Canoel International Energy Ltd. has a working capital deficit and an accumulated deficit. These conditions indicate the existence of material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

MNP LLP

Calgary, Alberta
June 23, 2014

Chartered Accountants

Canoel International Energy Ltd.

Consolidated Statements of Financial Position
As at March 31
(Expressed in Canadian dollars)

	Note	**2014** **$**	2013 $
ASSETS			
Current assets			
Cash		**711,248**	346,541
Marketable securities	6	**378,460**	–
Trade and other receivables		**1,215,913**	627,892
Inventory	7	**48,397**	61,749
Prepaid expenses	10	**251,714**	64,160
		2,605,732	1,100,342
Non-current assets			
Property and equipment	9	**20,937,438**	4,011,942
Prepaid property and equipment insurance	10	**549,497**	–
Total assets		**24,092,667**	5,112,284
LIABILITIES			
Current liabilities			
Trade and other payables		**2,474,178**	1,709,658
Oil share agreement	11	**875,727**	686,990
Notes payable	12	**374,068**	427,173
Loan payable	13	**1,888,221**	2,031,200
Convertible notes	14	**1,265,789**	–
Derivative liability	14	**1,101**	–
		6,879,084	4,855,021
Non-current liabilities			
Loan payable	13	**377,644**	–
Convertible notes	14	**–**	1,016,606
Derivative liability	14	**–**	56,754
Decommissioning obligation	15	**13,392,936**	1,283,060
Deferred taxes	21	**1,206,633**	–
Total liabilities		**21,856,297**	7,211,441
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital	16	**7,151,893**	6,556,260
Warrants	17	**487,257**	1,231,069
Contributed surplus		**1,744,326**	907,514
Accumulated other comprehensive loss		**(1,442,635)**	(880,286)
Deficit		**(5,704,471)**	(9,913,714)
Total shareholders' equity (deficit)		**2,236,370**	(2,099,157)
Total shareholders' equity (deficit) and liabilities		**24,092,667**	5,112,284

Going concern (Note 1)
Subsequent event (Note 27)

Approved by the Board of Directors

(Signed) "Erik Larre"
Director

(Signed) "Jose Ramon Lopez-Portillo"
Director

The accompanying notes are an integral part of these consolidated financial statements.

Canoel International Energy Ltd.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the years ended March 31
(Expressed in Canadian dollars)

	Note	**2014**	2013
		$	$
Revenue			
Oil and natural gas revenue		**4,108,690**	2,474,889
Royalties		**(420,837)**	(232,145)
		3,687,853	2,242,744
Other income		**–**	51,759
		3,687,853	2,294,503
Expenses			
Operating		**1,940,149**	1,576,496
Transportation		**53,567**	90,028
General and administrative		**2,379,792**	2,146,595
Foreign exchange		**482,381**	(397,269)
Fair value adjustment on marketable securities	6	**30,686**	–
Depletion and depreciation	9	**889,383**	296,947
Fair value adjustment on derivative liability	14	**(55,653)**	23,783
Gain on conversion of notes	14	**–**	(11,222)
Gain on business combination	8	**(6,623,675)**	–
		(903,370)	3,725,358
Income (loss) from operations		**4,591,223**	(1,430,855)
Finance income	20	**126,120**	–
Finance expense	20	**(804,811)**	(675,578)
Net finance expense		**(678,691)**	(675,578)
Income (loss) before taxes		**3,912,532**	(2,106,433)
Tax reduction	21	**296,711**	–
Net income (loss)		**4,209,243**	(2,106,433)
Exchange differences on translation of foreign operations		**(562,349)**	(628,538)
Comprehensive income (loss)		**3,646,894**	(2,734,971)
Net income (loss) per share			
Basic and diluted	19	**0.48**	(0.32)
Weighted average shares outstanding			
Basic and diluted	19	**8,776,222**	6,498,460

The accompanying notes are an integral part of these consolidated financial statements.

Canoel International Energy Ltd.

Consolidated Statements of Cash Flows
For the years ended March 31
(Expressed in Canadian dollars)

	Note	**2014**	2013
		$	$
Operating activities			
Net income (loss)		**4,209,243**	(2,106,433)
Items not involving cash:			
Shares issued for services	16	**59,586**	–
Fair value adjustment on marketable securities	7	**30,686**	–
Depletion and depreciation	9	**889,383**	296,947
Royalties on oil share agreement	11	**120,562**	28,765
Fair value adjustment on derivative liability	14	**(55,653)**	23,783
Gain on conversion of notes	14	**–**	(11,222)
Gain on business combination	8	**(6,623,675)**	–
Finance expense		**373,294**	218,470
Deferred tax reduction	21	**(332,819)**	–
		(1,329,393)	(1,549,690)
Foreign exchange on translation		**65,233**	(425,308)
Change in non-cash working capital	23	**(539,267)**	(20,961)
		(1,803,427)	(1,995,959)
Financing activities			
Repayment of notes payable	12	**(87,004)**	(106,790)
Proceeds from issue of share capital, net of share issue costs	16	**217,348**	1,610,916
		130,344	1,504,126
Investing activities			
Cash received on business combination, net of cash paid	8	**1,843,314**	–
Expenditures on property and equipment	9	**(332,117)**	(414,298)
Change in non-cash working capital	23	**565,386**	(142,266)
		2,076,583	(556,564)
Change in cash		**403,500**	(1,048,397)
Foreign exchange effect on cash held in foreign currencies		**(38,793)**	(52,770)
Cash, beginning of year		**346,541**	1,447,708
Cash, end of year		**711,248**	346,541
Cash interest paid		**263,303**	316,996

The accompanying notes are an integral part of these consolidated financial statements.

Canoel International Energy Ltd.

Consolidated Statements of Changes in Equity

For the years ended March 31

(Expressed in Canadian dollars)

	Note	**2014**	2013
		$	$
Share capital	16		
Balance – beginning of year		**6,556,260**	5,464,242
Debt conversion		**–**	188,202
Non-brokered private placements, net of issue costs		**217,348**	1,610,916
Share exchange		**411,699**	–
Shares issued for services		**59,586**	–
Fair value of warrants		**(93,000)**	(707,100)
Balance – end of year		**7,151,893**	6,556,260
Warrants	17		
Balance – beginning of year		**1,231,069**	573,571
Fair value of warrants		**93,000**	707,100
Expiry of warrants		**(836,812)**	(49,602)
Balance – end of year		**487,257**	1,231,069
Contributed surplus			
Balance – beginning of year		**907,514**	857,912
Expiry of warrants		**836,812**	49,602
Balance – end of year		**1,744,326**	907,514
Accumulated other comprehensive loss			
Balance – beginning of year		**(880,286)**	(251,748)
Exchange differences on translation of foreign operations		**(562,349)**	(628,538)
Balance – end of year		**(1,442,635)**	(880,286)
Deficit			
Balance – beginning of year		**(9,913,714)**	(7,807,281)
Net income (loss)		**4,209,243**	(2,106,433)
Balance – end of year		**(5,704,471)**	(9,913,714)
Total equity		**2,236,370**	(2,099,157)

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of operations and going concern

Canoel International Energy Ltd. ("Canoel" or the "Company") was incorporated pursuant to the provisions of the British Columbia Business Corporations Act on September 20, 2007. The address of the Company's registered office is 15th Floor, 850 - 2nd Street S.W., Calgary, Alberta T2P 0R8, Canada. The Company is primarily involved in the exploration for, development of and production of oil and natural gas properties primarily in Argentina and Italy.

On September 6, 2013, the Company's shareholders approved a 10 for 1 share consolidation of the Company's equity instruments comprised of common shares, warrants and stock options. All equity instrument figures presented herein are on a post-consolidated basis.

As at March 31, 2014, the Company has a working capital deficit of $4,273,352 (2013 – $3,754,679) and an accumulated deficit of $5,704,471 (2013 – $9,913,714) since its inception, and may incur future losses in the development of its business. Current cash resources will not be sufficient to continue the exploration and development activities. These matters raise significant doubt about the ability of the Company to continue to meet its obligations as they become due. Continuing operations are dependent on the ability to obtain adequate funding to finance existing operations, and maintain future profitable operations in Argentina and Italy. Additional financing is subject to the global financial markets and economic conditions, and volatility in the debt and equity markets. These factors have made, and will likely continue to make it challenging to obtain cost effective funding. There is no assurance this capital will be available and if it is not, the Company may be forced to curtail or suspend planned activity.

In May 2014, the Company completed the private placement of 6,928,366 units at $0.15 per unit for gross proceeds of $1,039,255 (Note 27).

These consolidated financial statements have been prepared on the basis of the going concern assumption that the Company will be able to discharge its obligations and realize its assets in the normal course of business at the values at which they are carried in these consolidated financial statements, and that the Company will be able to continue its business activities. Realization values may be substantially different from carrying values as shown and these consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these consolidated financial statements, then the adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. These adjustments could be material.

2. Basis of presentation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") in effect for the fiscal year beginning April 1, 2013.

These consolidated financial statements were authorized for issue by the Board of Directors on June 23, 2014.

Operating expenses in the consolidated statement of income (loss) and comprehensive income (loss) are presented as a combination of function and nature in conformity with industry practice. Depletion and depreciation are presented on a separate line by their nature, while operating expenses and net general and administrative expenses are presented on a functional basis. Significant expenses such as salaries, wages and fees are presented by their nature in the notes to the consolidated financial statements.

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, which are measured at fair value.

(c) Presentation and functional currency

The presentation currency of the Company is the Canadian dollar (“CAD”).

Functional currency is the currency of the primary economic environment in which a company operates. The functional currency of the Company is the CAD. The functional currencies of the Company’s subsidiaries are Argentine Pesos (“ARS”) for the subsidiaries in Argentina, United States (“US”) dollars for the subsidiaries in the US and Euros for the subsidiary in Italy.

3. Significant accounting policies

a) Consolidation

Subsidiaries

The following entities have been consolidated within the Company’s financial statements:

Entity	Registered	Holding
Canoel International Energy Ltd.	Canada	Parent
Ingenieria Petrolera del Rio de la Plata SRL	Argentina	100%
Ingenieria Petrolera Patagonia SRL (“IPP”)	US	100%
Canoel Italia SRL	Italy	100%
Petrolera Patagonia Corporation (“PPC”)	US	100% owned subsidiary of IPP
PP Holding Inc. (“PPH”)	US	100% owned subsidiary of IPP
Petrolera Patagonia SRL	Argentina	95% owned subsidiary of PPC and 5% held by PPH

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Business combinations

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their recognized amounts (generally fair value) at the acquisition date. The excess of the cost of acquisition over the recognized amounts of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, a bargain purchase gain is recognized immediately in the consolidated statement of income (loss) and comprehensive income (loss).

Transaction costs that are incurred in connection with a business combination other than those associated with the issue of debt or equity instruments, are recognized in earnings.

Joint arrangements

The Company’s oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company’s share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

b) Foreign currency translation

Foreign currency transactions are translated into the respective functional currencies of the Company and its subsidiaries using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of income (loss) and comprehensive income (loss).

The financial results and position of foreign operations whose functional currency is different from the presentation currency are translated as follows:

- Assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- Income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are transferred directly to the Company's exchange difference on translating foreign operations on the Statement of Comprehensive Loss and are reported as a separate component of shareholders' equity titled "Accumulated Other Comprehensive Income". These differences are recognized in profit or loss in the period in which the operation is disposed of.

c) Cash

Cash consist of cash deposits in bank accounts.

d) Inventory

Inventory consists of crude oil which is recorded at the lower of cost and net realizable value. The cost of producing crude oil is accounted on a weighted average basis. This cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of crude oil is the producing cost, including royalties. Net realizable value of crude oil and refined products is based on estimated selling price in the ordinary course of business less any expected selling costs.

e) Prepaid expenses

Prepaid expenses include prepaid annual fees which are based on the invoiced amount and amortized over the term of the related payment.

f) Property and equipment

Development and production expenditures

Development and production ("D&P") assets include costs incurred in developing commercial reserves and bringing them into production, together with the exploration and evaluation ("E&E") expenditures incurred in finding the commercial reserves that have been reclassified from E&E assets, the projected cost of retiring the assets and any directly attributable general and administrative expenses. Items of property and equipment, including D&P assets, are carried at cost less accumulated depletion and depreciation and accumulated impairment losses.

When significant parts of an item of property and equipment, including D&P assets, 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 D&P assets, are determined by comparing the proceeds of disposal with the carrying amount of the item and are recognized in profit or loss.

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability, costs of replacing parts of property and equipment and workovers of property and equipment are recognized only if they increase the economic benefits of the assets to which they relate. All other expenditures are recognized in profit or loss when incurred. The carrying amounts of previous inspections or any replaced or sold components are derecognized. The costs of day-to-day servicing of an item of property and equipment are recognized in profit or loss as incurred.

Depletion and depreciation

The net book value of producing assets are depleted on a field-by-field basis using the unit of production method with reference to the ratio of production in the year to the related proved and probable reserves, as determined by an independent reserve engineer, taking into account estimated future development costs necessary to bring those reserves into production. For purposes of these calculations, relative volumes of natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Office furniture and equipment is depreciated over the estimated useful lives of the assets on a declining balance basis of rates varying from 10% to 30%. The Company assesses the method of depreciation, useful lives and residual values at least annually.

Impairment

At the end of each reporting period, the Company reviews the D&P assets for circumstances that indicate the assets may be impaired. Assets are grouped together into cash-generating units ("CGUs") for the purpose of impairment testing. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. A CGUs recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from the production of proved and probable reserves.

Fair value less cost to sell 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 cost to sell of oil and natural gas assets 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 prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU. When the recoverable amount is less than the carrying amount, the asset or CGU is impaired. For impairment losses identified on a CGU, the loss is allocated on a pro rata basis to the assets within the CGU. The impairment loss is recognized as an expense in profit or loss.

At the end of each subsequent reporting period these impairments are assessed for indicators of reversal. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss have been recognized for the asset or CGU in prior periods. A reversal of an impairment loss is recognized in profit or loss.

g) Decommissioning obligation

The Company recognizes a decommissioning obligation in the period in which a well is drilled or acquired and a reasonable estimate of the future costs associated with removal, site restoration and asset retirement can be made. The estimated decommissioning obligation is recorded with a corresponding increase in the carrying amount of the related cost centre.

Decommissioning obligations are measured at the present value of management's best estimate of the

expenditures required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the provision is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

h) Tax expense

Tax expense is comprised of current and deferred tax. 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 period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded, using the asset and liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, deferred tax is not recorded on taxable temporary differences arising on the initial recognition of goodwill or on the initial recognition of assets and liabilities in a transaction other than a business combination that affect neither accounting nor taxable profit or loss. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

i) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise cash, trade and other receivables, marketable securities, trade and other payables, oil share agreement, notes payable, loans payable and convertible notes. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss, unless such instruments relate to investments in equity instruments that do not have a quoted market price in an active market and cannot be reliably measured in which case the investment is measured at cost. The Company has classified cash and marketable securities as fair value through profit or loss. The carrying amount of cash approximates fair value due to its short term to maturity. The carrying amount of the marketable securities represents its fair value as the carrying amount is based on the quoted market price of

the marketable securities at the statement of financial position date.

Other

Other non-derivative financial instruments, such as trade and other receivables, trade and other payables, oil share agreement, notes payable and loan payable are measured at amortized cost using the effective interest method, less any impairment losses. The carrying amount of these financial instruments approximates fair value due to their short-term to maturity.

Compound financial instruments

Compound financial instruments include convertible notes which can be converted into a fixed number of common shares for a fixed amount of consideration. The compound financial instrument is bifurcated and recorded with a liability and equity component. The liability component is initially recognized as the fair value of the liability without the conversion feature. The equity component is recognized as the difference between the fair value of the convertible debt and the fair value of the liability component. Transaction costs are proportionately allocated between the components. Subsequently, the liability component is measured at amortized cost using the effective interest method and accretes up to the principal balance at maturity. The equity component is not re-measured after initial recognition. Upon conversion, the liability component is reclassified to equity and no gain or loss is recognized.

Derivative financial instruments

The Company evaluates all financial instruments for freestanding and embedded derivatives. The conversion feature of convertible notes is an embedded derivative if the principal amount is convertible into common shares at a conversion price in a currency that differs from the currency of the principal amount such as when a foreign currency principal amount is convertible into common shares (and warrants) at a CAD conversion price. In this case, the Company recognizes the fair value of the derivative components at the date of issuance, with the remainder of the proceeds attributed to the liability component of the convertible notes. The derivative component is marked-to-market at each reporting date using the Black-Scholes pricing model to estimate the fair value. Changes in the fair value of the derivative liability are included in the consolidated statement of loss and comprehensive loss. The liability component accretes up to the principal balance at maturity. Upon conversion, the liability component is reclassified to equity and a gain or loss is recognized in the consolidated statement of loss and comprehensive loss for differences between the conversion price and the market price of the Company's shares on the date of conversion.

j) Impairment of 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 the consolidated statement of loss and comprehensive 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 the consolidated statement of loss and comprehensive loss.

k) Share capital

Common shares are classified as equity. Warrants that entitle the holder the right to acquire a fixed number of the Company's common shares for a fixed amount of CAD are also classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity.

l) Share-based payments

The Company follows the fair value method of accounting for stock options. The fair value of each stock option is calculated using the Black-Scholes option pricing model and is charged as share-based payments expense over the vesting period of the option, with a corresponding increase recorded in contributed surplus. Forfeitures are accounted for at grant date and adjusted based on actual vesting. Upon exercise of the stock option, the consideration received plus the amount previously recorded in contributed surplus is recorded as an increase to share capital.

m) Per share amounts

The Company presents basic and diluted per share data for its common shares. Basic per share amounts are calculated by dividing the profit of loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted per share amounts are determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted, for the effects of all dilutive potential common shares.

n) Revenue recognition

Oil and natural gas revenues are recognized when title and risks pass to the purchaser and payment is reasonably assured.

Other income, primarily for advisory services, is recognized after services are performed and invoiced and collection is reasonably assured.

o) Finance income and expense

Finance income is recognized as it accrues in the consolidated statement of loss and comprehensive loss using the effective interest method.

Finance expense is comprised of interest on debt, accretion of the decommissioning obligation, accretion of convertible notes, gains or losses on the fair value of the marketable securities, and other miscellaneous interest charges.

p) Leases

Payments made under operating leases are recognized in expense in accordance with the terms and conditions of the lease which typically results in payments being recognized on a straight-line basis over the term of the lease. The Company does not have any finance leases.

q) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments and has been identified as the executive directors that make strategic decisions.

r) Changes in accounting standards

On April 1, 2013, the Company adopted new standards for IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IFRS 13 Fair Value Measurement as well as consequential amendments to IAS 28 Investments in Associates and Joint Ventures. The adoption of these standards and amendments had no impact on the amounts recorded in the consolidated financial statements for the year ended March 31, 2014.

s) New standards and interpretations not yet adopted

The Company has reviewed amendments to accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

IFRS 2 Share-based Payment

Amendments to IFRS 2 Share-based Payment revised the definitions of 'vesting conditions' and 'market condition' and add definitions for 'performance condition' and 'service condition'. Amendments apply to share-based payment transactions for which the grant date is on or after July 1, 2014.

IAS 24 Related Party Disclosures

Amendments to IAS 24 Related Party Disclosures clarify that an entity providing key management services to the reporting entity is a related party of the reporting entity.

IAS 32 Financial Instruments: Presentation

Amendments to IAS 32 Financial Instruments: Presentation clarify that an entity has a legally enforceable right to set-off if that right is (a) not contingent on a future event; and (b) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments also clarify that when a settlement mechanism provides for either net settlement or gross settlement, it is equivalent to net settlement.

IAS 36 Impairment of Assets

In May 2013, the International Accounting Standards Board issued an amendment to IAS 36 Impairment of Assets. These narrow-scope amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

IAS 39 Financial Instruments: Recognition and Measurement

In November 2013, the IASB published amendments to IAS 39 Financial Instruments: Recognition and Measurement through a document entitled “Novation of Derivatives and Continuation of Hedge Accounting”. The amendments provide some relief from the discontinuation of hedge accounting when a novation is made as a consequence of laws or regulations or the introduction of laws or regulations, subject to certain criteria.

IFRIC 21 Levies

IFRIC 21 Levies clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that no liability should be recognized before the specified minimum threshold to trigger that levy is reached.

The above amendments are effective for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact of these amendments on its consolidated financial statements.

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a) Property and equipment

The fair value of property and equipment recognized in a business combination is based on fair value at the date of acquisition. The fair value of property and equipment is the estimated amount for which property and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of oil and natural gas assets (included in property and equipment) is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

b) Cash, trade and other receivables, trade and other payables, oil share agreement, notes payable and loan payable

The fair value of cash, trade and other receivables, trade and other payables, oil share agreement, notes payable and loan payable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At March 31, 2014 and 2013, the fair value of these balances approximated their carrying amount due to their short term to maturity.

c) Marketable securities

The fair value of the marketable securities is based on the quoted market price of the marketable securities on statement of financial position date.

d) Derivative liability

The derivative liability is marked-to-market at each reporting date using the Black-Scholes pricing model.

e) Stock options and warrants

The fair value of stock options and warrants is measured using a Black-Scholes pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected forfeiture rate (based on historic forfeitures), expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information including volatilities of peer companies), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

The Company did not grant any stock options as share-based payments in the years ended March 31, 2014 and 2013. The grant date weighted average fair value of warrants granted in the year ended March 31, 2014 was $0.12 per warrant (2013 – $0.30 per warrant), estimated using the Black-Scholes pricing model calculations based on the following significant assumptions:

	2014	2013
Risk-free interest rate	1.22%	1.05%
Expected volatility	100%	100%
Expected life	2 years	1.6 years
Dividends	nil	nil

f) Financial instruments

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

Level 1– Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Cash and marketable securities are Level 1 financial assets.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward rates for interest rate, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. The compound financial instrument and derivative liability are Level 2 liabilities.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

5. Critical accounting judgments and estimates in applying accounting policies

a) Judgments

Judgment is used in situations when there is a choice and/or assessment requirement by management. The following are critical judgments apart from those involving estimations (disclosed below), that management has made in the process of applying the Company’s accounting policies and that have a significant effect on the amounts recognized the consolidated financial statements.

Going concern

As discussed in Note 1, these consolidated financial statements have been prepared in accordance with IFRS on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment to assess the Company’s ability to continue as a going concern and the existence of conditions that cast doubt upon the going concern assumption.

It is management’s assessment that the going concern assumption is appropriate based on its continued ability to raise funds through the issuance of common shares and warrants as disclosed in Note 27.

Business combinations

Management uses judgment to assess whether an acquisition meets the definition of a business under IFRS.

Cash-generating Units (“CGUs”)

Management makes judgments in determining its CGUs and evaluates the geography, geology, production profile and infrastructure of its assets in making such determinations. Based on this assessment, the Company’s CGUs are generally composed of significant development areas. As at March 31, 2014, the Company had one CGU in Argentina and one CGU in Italy (2013 – one CGU in Argentina). The Company reviews the composition of its CGUs at each reporting date to assess whether any changes are required in light of new facts and circumstances.

Impairment of oil and natural gas properties

Management uses judgment to assess the existence of impairment indicators such as events or changes in circumstances that may indicate the carrying amount of oil and natural gas properties may not be recoverable. Due to a relatively stable commodity prices earned by the Company’s producing properties in

Argentina and Italy, and world pricing indicators for the price of oil, the Company did not identify any indicators of impairment at March 31, 2014 and 2013.

Decommissioning liabilities

Management uses judgment to assess the Company's legal obligations to decommission its oil and natural gas properties and restore property sites after closure. The Company's production activity is required to be in compliance with various environmental laws and regulations in Argentina. The assessment of decommissioning liabilities is based on management's understanding of the current legal and environmental requirements and third party engineering valuations.

Deferred taxes

Judgments are made by management to determine the likelihood of whether deferred tax assets at the end of the reporting period will be realized from future taxable earnings.

Contingencies

Management uses judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events. It is management's assessment that there are no contingencies at March 31, 2014 and 2013.

b) Estimates

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. The significant areas of estimation uncertainty are as follows:

Business combinations

In a business combination, the Company estimates the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon an estimation of recoverable reserves being acquired.

Carrying value of oil and natural gas assets

The Company used judgment to assess, at each reporting date, whether there is an indication that an asset or CGU may be impaired. A CGU is defined as the lowest grouping of assets that generate identifiable cash inflows that are largely independent of cash inflows of other assets or groups of assets. The allocation of assets into CGU's requires significant judgment and interpretations with respect to the way in which management monitors operations.

If any indication exists that an asset or CGU may be impaired, the Company estimates the recoverable amount. The recoverable amounts of individual assets and cash-generating units have been determined based on the higher of value-in-use and fair value less costs to sell.

These calculations require the use of estimates and assumptions, such as estimates of proved plus probable reserves, future production rates, oil and natural gas prices, future costs and other relevant assumptions, all of which are subject to change. The carrying value of oil and gas assets is sensitive to changes in the aforementioned estimates and assumptions and a material adjustment to the carrying value of the Company's oil and natural gas assets may be required as a result of changes to these estimates and assumptions.

Depletion and depreciation

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of total proved and probable petroleum and 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 to the consolidated financial statements in future periods could be material.

Estimation of oil and natural gas reserves

The estimate of oil and natural gas reserves is integral to the calculation of the amount of depletion charged to the consolidated statement of loss and comprehensive loss and is also a key determinant in assessing whether the carrying value of any of the Company's oil and natural gas assets has been impaired. Changes in reported reserves can impact asset carrying values and the decommissioning obligation due to changes in expected future cash flows.

The Company's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgment and interpretation.

Decommissioning obligation

Amounts recorded for the Company's decommissioning obligation requires the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures, discount rates and future inflation rates. The estimates are based on internal and third party information and calculations and are subject to change over time and may have a material impact on the Company's consolidated statement of loss and comprehensive loss or its consolidated statement of financial position.

Stock options, warrants and derivative financial instruments

The estimated fair value of derivative financial instruments resulting in financial assets and liabilities, by their very nature are subject to measurement uncertainty. The Company uses the Black-Scholes pricing model to estimate the fair value of stock options, warrants and derivative financial instruments, which is based on significant assumptions such as volatility, forfeiture rate, interest rate, dividend yield and expected term.

Deferred taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty.

Contingencies

When contingencies exist, management estimates the related financial impact to the Company of the possible outcomes of one or more future events.

6. Marketable securities

On March 7, 2014, the Company issued 1,600,000 common shares to Global Resources Investment Trust plc ("GRIT") (Note 16), an unrelated party, in exchange for 222,000 GRIT shares. The share exchange was recognized at the £1.00 quoted market price of the GRIT shares on the date of issuance, being £222,000 (CAD $411,699).

As at March 31, 2014, the fair value of the Company's investment in GRIT shares was £205,350 (CAD $378,460), resulting in the recognition of a $30,686 loss on the fair value of the marketable securities and $2,553 loss on foreign exchange in relation to the GRIT shares in the March 31, 2014 consolidated statement of loss and comprehensive loss.

7. Inventory

As at March 31, 2014, inventory consists of $48,397 (2013 – $61,749) of crude oil that has been produced but not yet sold.

8. Business combination

On June 6, 2013, the Company completed the acquisition of various working interests in 13 Italian producing and exploration properties (the "Assets") from Medoilgas Italia S.P.A. and Medoilgas Civita Limited, each a subsidiary of Mediterranean Oil and Gas Plc (collectively, "MOG") after receiving the final approval from the Italian Ministry of Economic Development to the change of ownership.

On completion of the transaction, the Company paid MOG a nominal sum of €100 ($136) for the acquisition of MOG's working interests in the Assets and has assumed the liability for future plugging, abandonment and site remediation costs associated with the Assets. At the same time, the Company received a cash payment of €1,250,000 ($1,701,250) as MOG's contribution toward future abandonment and remediation costs. The Company also received an initial advance of €104,000 ($142,200), for a portion of the revenue MOG received from the Assets during the period between the August 24, 2012 effective date of the acquisition and the June 6, 2013 closing date, net of allowable operating costs, agreed capital expenditure associated with the Assets and certain deposits for future capital expenditures.

The acquisition of Assets was accounted for as a business combination using the acquisition method of accounting:

Fair value of net assets acquired:		
Cash	$	1,843,450
Trade and other receivables		402,459
D&P assets		14,298,378
Foreign currency translation		319,212
Decommissioning obligation		(8,700,236)
Deferred tax		(1,539,452)
Gain on business combination		(6,623,675)
	$	136
Consideration:		
Cash	$	136

The estimated value of the D&P assets acquired was determined using both internal estimates and an independent reserve evaluation based on oil and gas reserves discounted at 15%. The decommissioning liabilities assumed were determined using the timing and estimated costs associated with the abandonment, restoration, and reclamation of the wells and facilities acquired.

As the cost of the acquisition was less than the fair value of the net assets acquired, the Company recognized a $6,623,675 gain on the business combination in the consolidated statement of income (loss) and comprehensive income (loss) for the year end March 31, 2014.

Costs related to acquisition totaled $233,547 were incurred and charged to income during year ended March 31, 2014. During the period from June 6, 2013 to March 31, 2014, the acquisition attributed revenues of $901,542 and net income of $6,895,772 for the period, which is included in the consolidated statement of income (loss) and comprehensive income (loss).

If the business combination, as described above, had occurred on April 1, 2013, the Company estimates that the revenue, would have increased by approximately $180,300 and consolidated net income and comprehensive income would have decreased by approximately $12,100. This pro forma information is not necessarily indicative of results had the acquisition occurred on April 1, 2013.

9. Property and equipment

	D&P assets	Furniture & fixtures	Total
Cost			
Balance – March 31, 2012	$ 5,055,158	$ 140,881	$ 5,196,039
Additions	409,898	4,400	414,298
Decommissioning obligation	(331,643)	–	(331,643)
Foreign currency translation	(504,026)	(29,039)	(533,065)
Balance – March 31, 2013	4,629,387	116,242	4,745,629
Additions	332,117	–	332,117
Business combination (Note 8)	14,298,378	–	14,298,378
Decommissioning obligation	2,173,582	–	2,173,582
Foreign currency translation	881,108	(35,608)	845,500
Balance – March 31, 2014	$ 22,314,572	$ 80,634	$ 22,395,206
Accumulated depletion and depreciation			
Balance – March 31, 2012	$ (485,143)	$ (27,279)	$ (512,422)
Depletion and depreciation	(272,889)	(24,058)	(296,947)
Foreign currency translation	70,504	5,178	75,682
Balance – March 31, 2013	(687,528)	(46,159)	(733,687)
Depletion and depreciation	(866,828)	(22,555)	(889,383)
Foreign currency translation	146,435	18,867	165,302
Balance – March 31, 2014	$ (1,407,921)	$ (49,847)	$ (1,457,768)
Carrying amount			
March 31, 2013	$ 3,941,859	$ 70,083	$ 4,011,942
March 31, 2014	$ 20,906,651	$ 30,787	$ 20,937,438

The depletion calculation for the year ended March 31, 2014 included estimated future development costs of $4.0 million for proved and probable reserves (2013 – $10.7 million).

The Company did not identify any indicators of impairment at March 31, 2014 and 2013.

10. Prepaid property and equipment insurance

Upon the change of ownership of the Assets acquired in Italy (Note 8), the Company obtained an insurance policy for its Italian oil and gas operations. The policy has a five year term for which the Company paid the total premium of EUR567,300 (C$867,939 March 31, 2014), of which $144,854 has been recognized as expense, $173,588 is included in current prepaid expenses and the remaining $549,497 balance shown as a long-term asset.

11. Oil share agreement

In connection with a business combination completed in July 2010, the Company became obligated to an oil share agreement pursuant to which, for a period of three years commencing November 30, 2010, the Company will provide the vendor, Central Argentina Inc., with the following: (i) 50% of the annual gross revenue derived from the sale of barrels of oil from the properties at a per barrel invoice price that exceeds US$42.00, but is less than or equal to US$52.00; and (ii) 25% of the annual gross revenue derived from the sale of barrels of oil at a per barrel invoice price that exceeds US$52.00.

Accretion of the liability and the effects of revisions to estimates are recognized as royalty expense in the consolidated statement of loss and comprehensive loss.

The following table presents the reconciliation of the carrying amount of the oil share agreement:

	2014	2013
Balance – beginning of year	$ 686,990	$ 647,358
Royalty expense	120,562	28,765
Foreign currency translation	68,175	10,867
Balance – end of year	$ 875,727	$ 686,990

The carrying amount of this obligation was estimated based on the following assumptions:

	2014	2013
Discount rate	7.5%	7.5%
Production (barrels of oil)	119,550	104,815
Actual and estimated sales price per barrel of oil (USD)	$ 58.45	$ 57.52
Undiscounted cash flows	$ 875,727	$ 689,009

12. Notes payable

On December 15, 2011, the Company obtained a US$500,000 loan in the form of notes payable secured by a mortgage on the oil and natural gas properties in Argentina and bearing interest at a fixed rate of interest of 11%.

During the year ended March 31, 2013, the Company repaid US$100,000 of notes payable plus related accrued interest was repaid during the year ended March 31, 2013 (CAD$106,790). As at March 31, 2013, the Company had US$400,000 of notes payable outstanding. The notes were to mature on June 30, 2013 with payments of interest only required until maturity. The maturity dates of the notes have been extended to various dates between October 2013 and October 2014, including accrued interest. In October 2013, the Company repaid US$60,000 of notes payable plus related accrued interest (CAD$87,004). As at March 31, 2014, the Company had US$340,000 of notes payable outstanding.

As at March 31, 2014, the balance of notes payable is $374,068 including accrued interest (2013 – $427,173).

13. Loan payable

On January 20, 2011, the Company obtained a loan from a private lender for US$2,000,000. The loan was to mature in January 2013. The loan was extended for an additional six months to July 2013. The loan is unsecured and bears interest at the fixed US prime rate of 3.25% plus 6.75%. Payments are interest only on a quarterly basis commencing on April 21, 2011. The Company has agreed to grant security over additional oil and natural gas assets acquired in Argentina, if acquired using the loan proceeds. Subject to regulatory approval, the lender has the right to participate in a portion of the profit from the eventual sale of any such property.

As at March 31, 2013, no additional Argentinean properties have been purchased and the loan payable was reported in current liabilities for $2,031,200 plus $89,595 of accrued interest included in trade and other payables.

On June 1, 2013, the Company and the third party lender amended the terms of the US$2,000,000 loan payable as follows:

- Amended principal amount US$2,050,000 representing the original US$2,000,000 principal amount plus US$121,644 of accrued interest up to June 1, 2013 and a US$50,000 arrangement fee in connection with the amendment of the loan payable;
- Maturity date of June 1, 2015;
- Interest rate of 10% per annum, calculated yearly and payable in monthly installments on the last day of each month;
- Interest only payments for the first 12 months, then equal monthly installments of principal and interest until June 1, 2015; and
- Distribution of certain net profits to the lender, as defined in the amended loan agreement, related to the sale of all or part of the Company's assets and operations in Argentina.

As a result of the amendment, the Company recognized US$121,644 (CAD$126,120) of finance income for the recovery of previously accrued but unpaid interest.

As at March 31, 2014, based on the amended terms of the loan payable, $1,888,221 of principal is classified as a current liability; $377,644 of principal is classified as long-term and $131,285 of accrued interest is included in traded and other payables.

14. Convertible notes

	Face value $	Debt component $	Derivative liability $
Balance – March 31, 2012	1,405,458	1,348,722	36,067
Conversion (a)	(209,113)	(196,328)	(3,096)
Change in fair value	–	–	23,783
Accretion	–	14,679	–
Foreign exchange	(37,671)	(150,467)	–
Balance – March 31, 2013	1,158,674	1,016,606	56,754
Change in fair value	–	–	(55,653)
Accretion	–	105,172	–
Foreign exchange	191,495	144,011	–
Balance – March 31, 2014	1,350,169	1,265,789	1,101

(a) Norwegian Krone notes

As at March 31, 2012, the Company held $1,200,000 Norwegian Krone (CAD$213,170 at March 31, 2012) of unsecured convertible notes bearing interest at a simple interest rate of 12% per annum, payable in arrears in equal quarterly installments commencing October 20, 2011. The notes were to mature on July 18, 2014.

On April 11, 2012, the notes were converted to 209,113 common shares for $209,113. At the time of conversion, the fair value of the derivative liability was $3,096 and the debt component was $196,328 and the trading price of the Company's shares was $0.90 per share ($188,202 fair value), resulting the recognition of a net gain on conversion of $11,222 in the consolidated statement of loss and comprehensive loss for the year ended March 31, 2013.

(b) Swiss Franc notes

As at March 31, 2012, 2013 and 2014, the Company held $1,080,000 Swiss Francs (CAD$1,350,169 at March 31, 2014) of unsecured convertible notes bearing interest at a simple interest rate of 9% per annum, payable in arrears in equal quarterly installments commencing April 11, 2012. Interest is accrued and presented in trade and other payables in the amount of $156,865 as at March 31, 2014 (2013 – $30,341).

The notes mature on January 11, 2015. At any time prior to maturity and at the option of the note holder, the principal and any unpaid interest of a note may be converted into common shares of the Company at a price of CAD$1.50 per share (pre-consolidation CAD$0.15 per share).

The fair value of the derivative liability was determined using the Black-Scholes pricing model based on the following assumptions:

	2014	2013
Risk free interest rate	1.07%	1.07%
Expected life	0.8 years	1.7 years
Expected volatility	100%	100%

15. Decommissioning obligation

The following table presents the reconciliation of the carrying amount of the obligation associated with the reclamation and abandonment of the Company's oil and gas properties:

	2014	2013
Balance – beginning of year	$ 1,283,060	$ 1,612,075
Business combination (Note 8)	8,700,236	–
Accretion	209,596	203,791
Change in estimate	2,173,582	(331,643)
Foreign currency translation	1,026,462	(201,163)
Balance – end of year	$ 13,392,936	$ 1,283,060

The following significant weighted average assumptions were used to estimate the decommissioning obligation:

	2014	2013
Undiscounted cash flows	$137.4 million	$11.1 million
Risk free rate	23.7%	15.5%
Inflation rate	12.6%	10.6%
Weighted average expected timing of cash flows	14 years	15 years

16. Share capital

(a) Authorized

Unlimited number of voting common shares without par value.
Unlimited number of preferred shares issuable in series and without par value.

(b) Issued

	Number of common shares	Amount $
Balance – March 31, 2012	5,255,949	5,464,242
Debt conversion (Note 14 (a))	209,113	188,202
Non-brokered unit private placement (i)	525,000	315,000
Fair value of warrants (i)	–	(167,000)
Non-brokered unit private placement (ii)	235,833	141,500
Fair value of warrants (ii)	–	(75,000)
Non-brokered unit private placement (iii)	216,667	130,000
Fair value of warrants (iii)	–	(69,000)
Non-brokered unit private placement (iv)	294,900	176,940
Fair value of warrants (iv)		(53,000)
Non-brokered unit private placement (v)	333,300	199,980
Fair value of warrants (v)	–	(80,500)
Non-brokered unit private placement (vi)	761,000	456,600
Fair value of warrants (vi)	–	(183,900)
Non-brokered unit private placement (vii)	356,667	214,000
Fair value of warrants (vii)	–	(64,000)
Share issue costs	–	(37,804)
Balance – March 31, 2013	8,188,429	6,556,260
Non-brokered unit private placement (viii)	750,000	150,000
Fair value of warrants (viii)	–	(93,000)
Non-brokered unit private placement (ix)	400,000	100,000
Shares issued for services (x)	313,610	59,586
Share exchange (xi)	1,600,000	411,699
Share issue costs	–	(32,652)
Balance – March 31, 2014	11,252,039	7,151,893

i) On June 28, 2012, the Company issued 525,000 units at a price of $0.60 per unit, for aggregate cash proceeds of $315,000. Each unit consists of one common share and one warrant exercisable at $1.00 per share until June 27, 2013. The fair value of the warrants was estimated at $167,000 using the Black-Scholes pricing model (Note 4(e)).

In addition, the Company paid a finder's fee of 244,000 warrants with the same terms as above, all of which was recognized as share issue costs. The fair value of the warrants was estimated at $7,800 using the Black-Scholes pricing model (Note 4(e)).

ii) On July 11, 2012, the Company issued 235,833 units at $0.60 per unit for aggregate cash proceeds of $141,500. Each unit consists of one common share and one warrant exercisable at $1.00 per share until July 11, 2013. The fair value of the warrants was estimated at $75,000 using the Black-Scholes pricing model (Note 4(e)).

In addition, the Company paid a finder's fee of $13,080 cash and 218,000 warrants with the same terms

as above, all of which was recognized as share issue costs. The fair value of the warrants was estimated at $6,900 using the Black-Scholes pricing model (Note 4(e)).

iii) On August 6, 2012, the Company issued 216,667 units at $0.60 per unit for aggregate cash proceeds of $130,000. Each unit consists of one common share and one warrant exercisable at $1.00 per share until August 6, 2013. Of the total units issued, 1,000,000 units were purchased by a corporation whose owner is a director of Canoel. The fair value of the warrants was estimated at $69,000 using the Black-Scholes pricing model (Note 4(e)).

iv) On November 15, 2012, the Company issued 294,900 units at $0.60 per unit for aggregate cash proceeds of $176,940. Each unit consists of one common share and one warrant exercisable at $1.00 per share until November 15, 2014. Of the total units issued, 833,333 units were purchased by a corporation whose owner is a director of Canoel. The fair value of the warrants was estimated at $53,000 using the Black-Scholes pricing model (Note 4(e)).

v) On December 7, 2012, the Company issued 333,300 units at $0.60 per unit for aggregate cash proceeds of $199,980. Each unit consists of one common share and one warrant exercisable at $1.00 per share until December 7, 2014. The fair value of the warrants was estimated at $80,500 using the Black-Scholes pricing model (Note 4(e)).

In addition, the Company paid a finder's fee of $10,024 cash which was recognized as share issue costs.

vi) On February 15, 2013, the Company issued 761,000 units at $0.60 per unit for aggregate cash proceeds of $456,600. Each unit consists of one common share and one warrant exercisable at $1.00 until February 15, 2015. Of the total units issued, 183,333 units were purchased by the President and CEO of Canoel. The fair value of the warrants was estimated at $183,900 using the Black-Scholes pricing model (Note 4(e)).

vii) On March 4, 2013, the Company issued 356,667 units at $0.60 per unit for aggregate cash proceeds of $214,000. Each unit consists of one common share and one warrant exercisable at $1.00 until March 4, 2015. The fair value of the warrants was estimated at $64,000 using the Black-Scholes pricing model (Note 4(e)).

viii) On September 20, 2013, the Company completed the private placement of 750,000 units at $0.20 per unit for gross proceeds of $150,000. Each unit is comprised of one common share and one warrant exercisable at $0.25 until September 20, 2015. The fair value of the warrants was estimated at $93,000 using the Black-Scholes pricing model (Note 4 (e)).

In connection with the unit private placement, the Company paid a finder's fee of $15,471 and incurred $17,181 of additional share issue costs.

ix) On February 10, 2014, the Company received TSX Venture Exchange approval for completion of a $100,000 non-brokered private placement of 400,000 common shares at $0.25 per share to an insider of the Company.

x) On February 19, 2014, the Company issued 313,610 common shares as payment for services valued at $59,586 based on the $0.19 market price of the Company's shares on the date of issuance and recognized in the consolidated statement of income (loss) and comprehensive income (loss).

xi) On March 7, 2014, the Company issued 1,600,000 common shares to GRIT in exchange for 222,000 GRIT shares. The share exchange was recognized at the £1.00 market value of the GRIT shares on the date of issuance, being £222,000 (CAD $411,699) (Note 6).

17. Warrants

	Number of warrants	Amount $	Weighted average exercise price
Balance – March 31, 2012	1,346,303	$ 573,571	$ 1.30
Unit private placements (Note 16)	2,723,367	692,400	1.00
Finder's fees (Note 16)	46,200	14,700	1.00
Expired	(160,000)	(49,602)	1.70
Balance – March 31, 2013	3,955,870	1,231,069	1.11
Issued (Note 16)	750,000	93,000	0.25
Expired	(2,152,503)	(836,812)	(1.03)
Balance – March 31, 2014	2,553,367	487,257	$ 0.87

Information about warrants outstanding and exercisable as at March 31, 2014 is as follows:

Exercise price	Number of warrants	Weighted average remaining life (years)	Weighted average exercise price
$ 0.25	750,000	1.47	$ 0.25
$ 1.00	1,745,867	0.81	1.00
$ 5.00	57,500	0.25	5.00
	2,553,367	0.99	$ 0.87

18. Stock options

The Company has a stock option plan (the "Plan") for the benefit of directors, employees and consultants. The maximum number of shares available under the Plan is limited to 10% of the issued and outstanding common shares at the time of granting options. Granted options are fully vested on the date of grant, at which time all related share-based payment expense is recognized in the consolidated statement of loss and comprehensive loss. Stock options expire five years from the date of grant.

	Number of options	Weighted average exercise price
Balance – March 31, 2012 and 2013	280,000	$ 1.11
Expired	(66,000)	(1.00)
Balance – March 31, 2014	214,000	$ 1.14

Information about stock options outstanding and exercisable as at March 31, 2014 is as follows:

Exercise price	Number of options	Weighted average remaining life (years)	Weighted average exercise price
$ 1.00	175,000	1.70	$ 1.00
$ 1.30	10,500	0.49	1.30
$ 1.50	7,000	0.58	1.50
$ 1.70	7,000	0.85	1.70
$ 2.30	14,500	0.49	2.30
	214,000	1.49	$ 1.14

19. Per share amounts

	2014	2013
Net income (loss)	$ 4,209,243	$ (2,106,433)
Weighted average number of shares – basic:		
Issued common shares as at April 1	8,188,429	5,255,949
Effect of common shares issued during the year	587,793	1,242,511
	8,776,222	6,498,460
Net income (loss) per share – basic and diluted [1]	$ 0.48	$ (0.32)

[1] The Company did not have any in-the-money convertible notes, warrants and stock options during the years ended March 31, 2014 and 2013. The effect of convertible notes, warrants and stock options is anti-dilutive in loss periods.

20. Finance income and expense

	2014	2013
Income:		
Recovery of loan payable interest (Note 13)	$ 126,120	$ –
Expense:		
Interest expense	490,043	457,108
Accretion of decommissioning obligation	209,596	203,791
Accretion of convertible notes	105,172	14,679
	804,811	675,578
Net finance expense	$ (678,691)	$ (675,578)

21. Taxes

The difference between tax expense for the year and expected income taxes based on the statutory tax rate arises as follows:

		2014		2013
Expected tax provision (reduction) at 25%	$	978,133	$	(526,608)
Non-taxable gain on business combination		(1,549,591)		–
Non-deductible expenses		12,290		16,359
Changes in enacted rates and other		(672,004)		(752,991)
Changes in unrecognized deferred tax assets		934,461		1,263,240
Tax reduction	$	(296,711)	$	–

The tax reduction for the year ended March 31, 2014 is comprised of $36,108 of current tax expense and a $332,819 deferred tax reduction.

Recognized deferred tax assets (liabilities) are attributable to the following:

		2014		2013
Property and equipment	$	(4,302,285)	$	–
Decommissioning obligation		3,095,652		–
Recognized deferred tax assets (liabilities)	$	(1,206,633)	$	–

Deferred tax assets have not been recognized in respect of the following temporary differences as it is not considered probable that sufficient taxable income will allow the deferred tax assets to be utilized and recovered:

		2014		2013
Non-capital loss carryforwards	$	2,477,739	$	2,266,106
Share issuance costs		25,287		50,574
Other		1,413,146		665,031
Unrecognized deferred tax assets	$	3,916,172	$	2,981,711

As at March 31, 2014, the Company has accumulated non-capital losses in Canada totaling $9.1 million (2013 – $8.3 million) which expire in varying amounts between 2028 and 2034.

22. Supplemental disclosure

(a) Employee compensation cost

The consolidated statement of loss and comprehensive loss is prepared primarily by nature of expense with the exception of employee compensation cost which is included in operating and general and administrative expenses. The following table details the amounts of total employee compensation included in the statements of loss and comprehensive loss:

		2014		2013
Operating	$	909,419	$	772,639
General and administrative		303,709		391,523
Total employee compensation cost	$	1,213,128	$	1,164,162

(b) Key management compensation

The Company considers its officers and directors to be key management personnel. As at March 31, 2014, key management personnel included 7 individuals (2013 – 7 individuals).

Key management compensation for the years ended March 31 is comprised of the following:

		2014		2013
Consulting fees	$	135,948	$	140,461
Bonus		152,943		150,000
Total key management compensation	$	288,891	$	290,461

23. Change in non-cash working capital

		2014		2013
Trade and other receivables	$	(350,973)	$	402,311
Inventory		(6,946)		26,138
Prepaid expenses		(190,310)		(29,397)
Prepaid property and equipment insurance		(509,766)		–
Trade and other payables		1,084,114		(562,279)
Total change in non-cash working capital	$	26,119	$	(163,227)

The change in non-cash working capital has been allocated to the following activities:

		2014		2013
Operating	$	(539,267)	$	(20,961)
Investing		565,386		(142,266)
Total change in non-cash working capital	$	26,119	$	(163,227)

24. Related party transactions

Related party transactions are considered to be in the normal course of operations and are initially recognized at fair value. Related party transactions during the years ended March 31, 2014 and 2013 not disclosed elsewhere in these consolidated financial statements are as follows:

a) Included in general and administrative expenses is $200,879 (2013 – $215,677) charged by a company controlled by an officer and director of the Company for office rent and administrative services. As at March 31, 2014, $nil (2013 – $16,145) was included in trade and other payables in respect of these charges.

b) Included in interest expense is $5,175 (2013 – $4,787) on $50,000 Swiss Francs of convertible notes (Note 14(b)) held by company controlled by a director of the Company, of which $12,515 is included in trade and other payables as at March 31, 2014 (2013 – $5,912).

c) Included in trade and other payables is $13,803 (2013 – $132,667) due to an officer and director of the Company in respect of general and administrative expenditures made on behalf of the Company for which the officer and director will be reimbursed.

25. 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 such as credit risk, liquidity risk and market risk. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further

quantitative disclosures are included throughout these consolidated financial statements.

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or counter party to a financial instrument fails to meet its commercial obligations. The Company's maximum credit risk exposure is limited to the carrying amount cash of $711,248 (2013 – $346,541) and trade and other receivables of $1,215,913 (2013 – $627,892).

The composition of trade and other receivables is summarized in the following table:

	2014	2013
Oil and natural gas sales	$ 909,525	$ 360,299
Stamp tax and other tax withholdings	235,953	206,365
Goods and services tax	10,861	8,498
Other	59,574	52,730
	$ 1,215,913	$ 627,892

The receivables related to the sale of oil and natural gas are due from large companies who participate in the oil and natural gas industry in Argentina and Italy. Oil and natural gas sales receivables are typically collected in the month following the sales month.

The Company considers its receivables to be aged as follows:

	2014	2013
Current	$ 933,343	$ 412,932
31 to 90 days	–	485
90 + days	282,570	214,475
	$ 1,215,913	$ 627,892

b) Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and distressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

As at March 31, 2014, the Company had $6,879,084 (2013 – $4,855,021) of current liabilities for which the Company's $711,248 (2013 – $346,541) cash balance is insufficient to settle the current liabilities. It is expected that further debt and equity financings will be required in order to settle existing current liabilities, continue development of the Company's assets and meet future obligations. There can be no assurance that such financings will be available to the Company.

As of March 31, 2014, the contractual cash flows, including estimated future interest, of current and non-current financial liabilities mature as follows:

	Carrying amount	Contractual cashflows	Due on or before March 31, 2015	Due in June 2015
Trade and other payables	$ 2,474,178	2,474,178	2,474,178	–
Oil share agreement	875,727	875,727	875,727	–
Notes payable	374,068	377,466	377,466	–
Loan payable	2,265,865	2,530,988	2,114,848	416,140
Convertible note	1,265,789	1,445,383	1,445,383	–
	$ 7,255,627	7,703,742	7,287,602	416,140

c) Market Risk

Market risk is the risk that changes in foreign exchange rates, commodity prices, and interest rates will affect the Company's net loss income or the value of financial instruments.

i) Currency risk

Foreign currency exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Foreign exchange rates to Canadian dollars for the noted dates and periods are as follows:

	Closing rate		Average rate	
	2014	2013	2014	2013
ARS	0.1380	0.1985	0.1753	0.2129
US dollars	1.1055	1.0137	1.0534	1.0014
Euro	1.5227	1.3071	1.4126	1.2894
Swiss Franc	1.2501	1.0748	1.1491	1.0654

The following represents the estimated impact on net income (loss) of a 10% change in the closing rates as at March 31 2014 and 2013 on foreign denominated financial instruments held by the Company, with other variables such as interest rates and commodity prices held constant:

	2014	2013
US dollars	$ 252,893	$ 206,493
Swiss Franc	150,697	119,118
	$ 403,590	$ 325,611

i) Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices.

As at March 31, 2014, a 5% change in the price of natural gas produced in Italy would represent a change in net loss for the year ended March 31, 2014 of approximately $45,100 (2013 – not applicable).

Oil prices in Argentina are the results of complicated formulas that are set by refineries based on instructions or decrees from the government and crude oil prices in Argentina are capped by the Government at variable levels. As at March 31, 2014, a 5% change in the price of oil would represent a change in net loss for the year ended March 31, 2014 of approximately $145,300 (2013 – $112,000).

ii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company has fixed interest on notes payable (Note 12) and loan payable (Note 13) and convertible notes (Note 14).

26. Capital management

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to explore and develop its projects to provide returns for shareholders and benefits for other stakeholders. The Company manages its working capital deficiency, long-term debt, and shareholders' deficit as capital.

	2014	2013
Working capital deficiency	$ 4,273,352	$ 3,754,679
Long-term debt	377,644	1,016,606
Shareholders' equity (deficit)	2,236,370	(2,099,157)

The Company has recently emerged from the development stage; however its cash flow from the Argentinean operation will be needed in the near term to finance the operations and repay vendor loans. Therefore, the Company's principal source of funds will remain the issuance of common shares. The Company's ability to raise future capital through equity is subject to uncertainty and the inability to raise such capital may have an adverse impact over the Company's ability to continue as a going concern.

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

27. Subsequent event

In May 2014, the Company completed the private placement of 6,928,366 units at $0.15 per unit for gross proceeds of $1,039,255. Each unit is comprised of one common share and one warrant exercisable at $0.25 per share until May 2017. In connection with the unit private placement, the Company paid finder's fees of $63,120 and issued 414,782 finder's warrants exercisable at $0.25 until May 2017.

28. Operating segments

The Company's operations are conducted in one business sector, the oil and natural gas industry. Geographical areas are used to identify Company's reportable segments. A geographic segment is considered a reportable segment once its activities are regularly reviewed by the Company's management. The Company has three reportable segments which are as follows:

- Argentina;
- Italy, which commenced oil and gas operations following the acquisition of assets in June 2013 (Note 8); and
- Other, which includes corporate assets and the operations in the Canadian and US entities. None of these individual segments meet the quantitative thresholds for determining reportable segments in 2014 or 2013.

Information for as at and for the years ended March 31 is as follows:

		2014				2013			
		Argentina	Italy	Other	Total	Argentina	Italy	Other	Total
Property and equipment	$	3,267,138	17,670,300	–	20,937,438	3,876,129	135,813	–	4,011,942
Other assets	$	1,047,784	1,627,287	480,158	3,155,229	804,921	93,071	202,350	1,100,342
Total liabilities	$	5,380,166	11,803,204	4,672,927	21,856,297	2,994,040	47,901	4,169,500	7,211,441
Capital expenditures	$	7,069	325,048	–	332,117	283,539	130,759	–	414,298

		Years ended March 31							
		2014	2013	2014	2013	2014	2013	2014	2013
		Argentina		Italy		Other		Total	
Revenue	$	3,207,148	2,474,889	901,542	–	–	–	4,108,690	2,474,889
Royalties		(300,275)	(203,380)	–	–	(120,562)	(28,765)	(420,837)	(232,145)
Operating and transportation		(1,365,171)	(1,666,524)	(628,545)	–	–	–	(1,993,716)	(1,666,524)
General and administrative		(421,030)	(452,562)	(256,808)	(116,907)	(1,701,954)	(1,577,126)	(2,379,792)	(2,146,595)
Depletion and depreciation		(555,664)	(296,947)	(333,719)	–	–	–	(889,383)	(296,947)
Gain on business combination		–	–	6,623,675	–	–	–	6,623,675	–
Finance and other expenses		(553,822)	(64,489)	(33,239)	–	(549,044)	(174,622)	(1,136,105)	(239,111)
Segment income (loss)	$	11,186	(209,013)	6,272,906	(116,907)	(2,371,560)	(1,780,513)	3,912,532	(2,106,433)