



Quebec's Leader in Oil Exploration



Condensed Interim Consolidated Financial Statements  
(unaudited)

For the periods ended September 30, 2015 and 2014

**NOTICE OF DISCLOSURE OF NON-AUDITOR REVIEW OF  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2015  
AND 2014**

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if the independent auditors have not performed a review of the condensed interim consolidated financial statements [the “consolidated financial statements”], the consolidated financial statements must be accompanied by a notice indicating that they have not been reviewed by the auditors.

The accompanying consolidated financial statements of Pétrolia Inc. [the “Company”] for the periods ended September 30, 2015 and 2014 have been prepared in accordance with International Financial Reporting Standards and are the responsibility of management.

The Company’s independent auditors, Ernst & Young LLP, have not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada [“CPA Canada”] for a review of interim financial statements by an entity’s independent auditors.

November 25, 2015



## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[in Canadian dollars]

[unaudited]

	As at September 30, 2015	As at December 31, 2014
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents <i>[Note 3]</i>	263,518	4,871,507
Cash and cash equivalents held for exploration <i>[Note 3]</i>	1,660,428	368,004
Accounts receivable <i>[Note 4]</i>	537,602	1,074,645
Prepaid expenses	174,472	176,397
Inventories	631,214	857,579
<b>Total current assets</b>	<b>3,267,234</b>	<b>7,348,132</b>
<b>Non-current</b>		
Investments in associates <i>[Note 5]</i>	36,583,849	36,564,660
Property, plant and equipment <i>[Note 6]</i>	472,156	520,829
Exploration and evaluation assets <i>[Note 7]</i>	41,987,498	39,749,764
<b>Total non-current assets</b>	<b>79,043,503</b>	<b>76,835,253</b>
	<b>82,310,737</b>	<b>84,183,385</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current</b>		
Trade and other payables <i>[Note 8]</i>	2,120,588	5,280,847
Current portion of deferred lease inducements	18,268	27,400
Current portion of bank borrowings <i>[Note 9]</i>	6,568	6,448
Liability related to flow-through shares	435,862	64,942
<b>Total current liabilities</b>	<b>2,581,286</b>	<b>5,379,637</b>
<b>Non-current</b>		
Deferred lease inducements	—	11,418
Bank borrowings <i>[Note 9]</i>	21,911	26,851
Provision for site restoration <i>[Note 10]</i>	1,127,306	816,220
Deferred income tax liabilities	7,771,853	7,848,210
<b>Total non-current liabilities</b>	<b>8,921,070</b>	<b>8,702,699</b>
<b>Total liabilities</b>	<b>11,502,356</b>	<b>14,082,336</b>
<b>Equity</b>		
Share capital <i>[Note 11]</i>	60,793,397	59,307,265
Contributed surplus	5,557,115	5,480,501
Retained earnings	4,457,869	5,313,283
<b>Total equity</b>	<b>70,808,381</b>	<b>70,101,049</b>
	<b>82,310,737</b>	<b>84,183,385</b>

Going concern *[Note 1]*

Contingencies *[Note 15]*

Subsequent events *[note 17]*

See accompanying notes



## CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

[in Canadian dollars]

[unaudited]

For the periods ended September 30

	2015 [3 months] \$	2014 [3 months] \$	2015 [9 months] \$	2014 [9 months] \$
				[Restated <i>Note 5</i> ]
<b>Revenues</b>				
Project management	22,524	67,973	156,718	263,063
Other income	998	2,994	7,166	8,984
Gain on transfer of certain permits <i>Note 5</i>	—	—	—	28,059,532
	<b>23,522</b>	<b>70,967</b>	<b>163,884</b>	<b>28,331,579</b>
<b>Expenses</b>				
Administrative expenses <i>Schedule A</i>	251,875	449,126	1,131,524	2,344,322
Operating expenses <i>Schedule B</i>	—	—	—	—
Financial income and expenses <i>Schedule C</i>	5,026	56,349	3,794	159,999
Share of associates <i>Note 5</i>	21,682	30,455	114,238	80,301
	<b>278,583</b>	<b>535,930</b>	<b>1,249,556</b>	<b>2,584,622</b>
Income (loss) before taxes	<b>(255,061)</b>	<b>(464,963)</b>	<b>(1,085,672)</b>	<b>25,746,957</b>
Deferred tax (recovery)	151,801	(166,063)	(230,258)	7,244,204
<b>Net income (loss) and comprehensive income (loss)</b>	<b>(406,862)</b>	<b>(298,900)</b>	<b>(855,414)</b>	<b>18,502,753</b>
<b>Basic net earnings (loss) per share <i>Note 12</i></b>	<b>(0.005)</b>	<b>(0.004)</b>	<b>(0.011)</b>	<b>0.256</b>
<b>Diluted net earnings (loss) per share <i>Note 12</i></b>	<b>(0.005)</b>	<b>(0.004)</b>	<b>(0.011)</b>	<b>0.255</b>

See accompanying notes

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in Canadian dollars]

[unaudited]

	Share capital	Contributed surplus	Retained earnings (deficit)	Total equity
	\$	\$	\$	\$
<b>Balance as at January 1, 2014</b>	54,546,758	4,824,472	(12,268,489)	47,102,741
Shares issued	5,064,526	—	—	5,064,526
Stock options exercised	7,500	—	—	7,500
Share-based compensation	—	192,715	—	192,715
Issuance costs	(398,597)	—	—	(398,597)
Deferred taxes related to issuance costs	—	—	—	—
Net income and comprehensive income	—	—	18,502,753	18,502,753
	4,673,429	192,715	18,502,753	23,368,897
<b>Balance as at September 30, 2014 – [Restated <i>[Note 5]</i>]</b>	59,220,187	5,017,187	6,234,264	70,471,638
Shares issued	—	—	—	—
Share-based compensation	—	463,314	—	463,314
Issuance costs	(27,561)	—	—	(27,561)
Deferred taxes related to issuance costs	114,639	—	—	114,639
Net loss and comprehensive loss	—	—	(920,981)	(920,981)
	87,078	463,314	(920,981)	(370,589)
<b>Balance as at January 1, 2015</b>	59,307,265	5,480,501	5,313,283	70,101,049
Shares issued	1,609,815	—	—	1,609,815
Share-based compensation	—	76,614	—	76,614
Issuance costs	(171,847)	—	—	(171,847)
Deferred taxes related to issuance costs	48,164	—	—	48,164
Net loss and comprehensive loss	—	—	(855,414)	(855,414)
	1,486,132	76,614	(855,414)	707,332
<b>Balance as at September 30, 2015</b>	60,793,397	5,557,115	4,457,869	70,808,381



## CONSOLIDATED STATEMENTS OF CASH FLOWS

[in Canadian dollars]

[unaudited]

For the periods ended September 30

	2015 [9 months] \$	2014 [9 months] \$
		[Restated <i>[Note 5]</i> ]
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	(855,414)	18,502,753
Items not affecting cash:		
Depreciation of property, plant and equipment	17,840	80,400
Amortization of financing costs	—	91,962
Deferred tax (recovery)	(230,258)	7,244,204
Share-based compensation	53,281	192,715
Amortization of deferred lease inducements	(20,550)	(20,550)
Non-cash gain on transfer of ownership of certain licences	—	(28,059,532)
Gain on disposal of property, plant and equipment	(3,467)	—
Accretion expense	24,805	18,197
Share of associates	114,238	80,301
	<b>(899,525)</b>	<b>(1,869,550)</b>
Net change in non-cash operating items <i>[Note 16]</i>		
Accounts receivable	336,445	(134,301)
Prepaid expenses	1,925	(412,103)
Inventories	226,365	(969,935)
Trade and other payables	(422,576)	1,713,670
	<b>142,159</b>	<b>197,331</b>
<b>Cash flows related to operating activities</b>	<b>(757,366)</b>	<b>(1,672,219)</b>
<b>INVESTING ACTIVITIES</b>		
Acquisitions of investments in associates	(43)	(1,933,333)
Additions to property, plant and equipment	(13,748)	(20,370)
Acquisitions of oil and gas properties	(133,054)	(147,669)
Increase in deferred exploration costs, net of recovered amounts	(4,323,233)	(203,021)
Disposal of an investment	—	930,000
Proceeds from disposal of property, plant and equipment	17,448	—
Contributions to associates	(111,702)	—
Costs related to the acquisition of an interest in an associate	—	(1,013,144)
<b>Cash flows related to investing activities</b>	<b>(4,564,332)</b>	<b>(2,387,537)</b>
<b>FINANCING ACTIVITIES</b>		
Shares issued	2,182,800	5,514,424
Share issuance costs	(171,847)	(398,597)
Repayment of bank borrowings	(4,820)	—
<b>Cash flows related to financing activities</b>	<b>2,006,133</b>	<b>5,115,827</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(3,315,565)</b>	<b>1,056,071</b>
Cash and cash equivalents, beginning of period	5,239,511	4,987,641
<b>Cash and cash equivalents, end of period <i>[Note 16]</i></b>	<b>1,923,946</b>	<b>6,043,712</b>

See accompanying notes



## **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

For the periods ended September 30, 2015 and 2014

### **1. INCORPORATION, NATURE OF OPERATIONS, GOING CONCERN UNCERTAINTY, AND CONDENSED FINANCIAL INFORMATION**

#### **Incorporation and nature of business**

The Company, incorporated under Part IA of the Québec *Companies Act* and governed by the provisions of the Québec *Business Corporations Act*, is an oil and gas exploration company. Its stock has been listed on the TSX Venture Exchange since February 16, 2005 under the symbol PEA. Its head office is located at 305 Charest Blvd. E., 10th Floor, Québec City, Québec, Canada G1K 3H3.

#### **Going concern**

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the period ended September 30, 2015. Management is aware, in making its assessment, of material uncertainties related to events and conditions that cast significant doubt upon the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the carrying amounts of assets, liabilities, income and expenses and to classifications in the statement of financial position that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

The Company has yet to determine whether its oil and gas properties contain economically feasible reserves. The Company's ability to generate revenue from its oil and gas properties hinges on its ability to economically operate its oil reserves, obtain the necessary financing to pursue property exploration, evaluation, development and construction, begin commercial production, or generate proceeds from the disposal of its exploration and evaluation assets.



## **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

For the periods ended September 30, 2015 and 2014

In addition to ongoing working capital requirements, the Company must secure sufficient funding to meet its existing obligations and commitments under exploration and evaluation programs and pay general and administrative expenses. Management considers that the current funds are insufficient to meet the Company's obligations and anticipated expenditures through to September 30, 2016. Any shortfall could be met in a number of ways in the future, including but not limited to, the issuance of new debt or equity instruments, additional cost-cutting measures or the introduction of new partners, on which the Company is already working. If management is unable to secure new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than the amounts reflected in these financial statements.

### **Condensed interim consolidated financial information**

The financial information as at September 30, 2015 and for the nine-month periods ended September 30, 2015 and 2014 is unaudited. However, it is management's view that all adjustments required to present fairly the results for these periods have been made. The adjustments made were of a normal recurring nature. The interim consolidated operating results do not necessarily reflect the operating results anticipated for the full fiscal year.

## **2. BASIS FOR THE PREPARATION OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

These condensed interim consolidated financial statements were prepared in accordance with applicable IFRS and IAS 34, *Interim Financial Reporting*, published by the International Accounting Standards Board ("IASB") and set out in the CPA Canada Handbook. The accounting policies and the methods of computation applied in these condensed interim consolidated financial statements are the same as those in the most recent annual financial statements. The condensed interim consolidated financial statements should be read in conjunction with the audited annual financial statements for the fiscal year ended December 31, 2014, including the notes thereto.

These condensed interim consolidated financial statements for the nine-month periods ended September 30, 2015 and 2014 were approved by the Board of Directors on November 25, 2015.

All amounts are expressed in Canadian dollars.





## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2015 and 2014

### 3. CASH AND CASH EQUIVALENTS

	As at September 30, 2015 \$	As at December 31, 2014 \$
Cash	672,338	3,015,868
Guaranteed investment certificates	1,251,608	2,223,643
	<u>1,923,946</u>	<u>5,239,511</u>
Less: Cash and cash equivalents held for exploration purposes <sup>1</sup>	1,660,428	368,004
Cash and cash equivalents	<u>263,518</u>	<u>4,871,507</u>

<sup>1</sup> Cash and cash equivalents held for exploration purposes represent the unexpended proceeds of financing related to flow-through shares. According to restrictions imposed under financing arrangements, the Company must allocate these funds to the exploration of oil and gas properties.

As at September 30, 2015, cash and cash equivalents included a guaranteed investment certificate carrying interest at 1.30% maturing on December 3, 2015. As at December 31, 2014, cash and cash equivalents included guaranteed investment certificates bearing interest at rates from 1.25% to 1.30%, maturing from April 24 to December 3, 2015. These instruments are redeemable at any time without penalty.

### 4. RECEIVABLES

	As at September 30, 2015 \$	As at December 31, 2014 \$
Partners	—	179,336
Associates	22,606	16,786
Commodity taxes	—	415,430
Tax credits receivable	160,616	133,865
Interest receivable	17,467	17,146
Other	336,913	312,082
	<u>537,602</u>	<u>1,074,645</u>

Tax credits receivable relate to claims that have not yet been reviewed by tax authorities.

All the amounts have short-term maturities.



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2015 and 2014

### 5. INVESTMENTS IN ASSOCIATES

#### Anticosti property

##### *Transaction details*

On March 31, 2014, the Company completed a transaction that resulted in a partnership, Anticosti Hydrocarbons L.P., which owns and operates the licences held previously by Pétrolia and Corridor Resources Inc. The ownership interests of the partners are as follows:

Partners	Ownership interest
Ressources Québec	35%
Pétrolia Inc.	21.7%
Corridor Resources Inc.	21.7%
Saint-Aubin E&P (Québec) Inc.	21.7%

The exploration licences were valued at \$100 million for the purposes of the transaction. Ressources Québec and St-Aubin E&P (Québec) Inc. have undertaken to finance exploration work in an amount of up to \$100 million broken down into two investment phases. Accordingly, Ressources Québec will invest up to \$56.67 million in exchange for a 28.3% interest and St-Aubin E&P (Québec) Inc. will invest \$43.33 million in exchange for a 21.7% interest. To ensure equal interests for the three public corporations and a 35% interest for Ressources Québec, Anticosti Hydrocarbons L.P. made a payment of \$15.2 million to Corridor Resources. Following these transactions, the parties' interests in the partnership are as follows: Ressources Québec owns 35%, Pétrolia 21.7%, St-Aubin E&P (Québec) Inc. 21.7% and Corridor Resources Inc. (CDH-TO) 21.7%.



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS  
(UNAUDITED)**

For the periods ended September 30, 2015 and 2014

	<b>Anticosti Hydrocarbons L.P. \$</b>	<b>Anticosti Hydrocarbons General Partner Inc. \$</b>	<b>Total \$</b>
Value of licences transferred to the partnership	41,400,000	—	41,400,000
Share of net loss	(99,450)	—	(99,450)
Contributions	80,304	—	80,304
Pétrolia's interest as stated in Anticosti Hydrocarbons L.P.'s financial statements as at December 31, 2014	41,380,854	—	41,380,854
Professional fees incurred to acquire the interest	1,013,144	—	1,013,144
Cash amount paid to acquire an interest totalling 21.7%	1,933,333	—	1,933,333
	44,327,331	—	44,327,331
Elimination of Pétrolia's share [21.7%] in the non-cash gain on transfer of ownership of certain licences	(7,762,671)	—	(7,762,671)
Value of the interest as at December 31, 2014	36,564,660	—	36,564,660
Share of net loss	<b>(65,148)</b>	<b>(49,090)</b>	<b>(114,238)</b>
Contributions	<b>84,294</b>	<b>49,090</b>	<b>133,384</b>
Cash amount paid to acquire a 21.7% interest	—	43	43
Value of the interest as at September 30, 2015	<b>36,583,806</b>	<b>43</b>	<b>36,583,849</b>

The gain on the transfer of licences is calculated as follows:

	\$
Value of licences transferred	41,400,000
Less:	
Carrying amount of exploration and evaluation assets	5,577,797
	<b>35,822,203</b>
Adjustment to eliminate Pétrolia's share [21.7%] in the non-cash gain on transfer of ownership of certain licences	(7,762,671)
Non-cash gain on the transfer of ownership of certain licences	<b>28,059,532</b>



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2015 and 2014

During the year ended December 31, 2014, the Company reviewed the calculation of the non-cash gain on transfer of ownership of certain licences ["gain"], adjusting it to \$28,059,532 from \$27,265,936 to account for the professional fees incurred for the acquisition of an interest amounting to \$1,013,144 in the value of the interest in an associate rather than against the gain. Those adjustments resulted in an increase in the interest in an associate and the gain in the amount of \$793,596 \$ [\$1,013,144 x [100% - 21.7%]], as well an increase in deferred tax liabilities of \$213,477 as at September 30, 2014. Those adjustments also resulted in a \$580,119 increase in net income and comprehensive income as well as retained earnings for the nine-month period ended September 30, 2014 and a \$0.008 increase in net basic earnings per share and net diluted earnings per share for the nine-month period ended September 30, 2014.

### *Financial information*

Key financial information for the investments held by Pétrolia in Anticosti Hydrocarbons L.P. and Anticosti Hydrocarbons General Partner Inc. [21.7% of units] through Investissement PEA inc. is as follows:

	As at September 30, 2015	As at December 31, 2014
	\$	\$
Current assets	3,926,720	3,076,560
Non-current assets	120,020,456	111,512,377
Current liabilities	565,173	330,401
Non-current liabilities	—	220,481
Partners' equity	123,382,003	114,038,055
Revenues	—	—
Net loss and comprehensive loss	(527,251)	(458,926)
Share of Pétrolia [21.7%]	(114,238)	(99,450)



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2015 and 2014

### 6. PROPERTY, PLANT AND EQUIPMENT

	Land \$	Leasehold improvements \$	IT, office and field equipment \$	Automotive equipment \$	Reserves \$	Field offices \$	Total \$
<b>Gross carrying amount</b>							
Balance as at							
December 31, 2014	75,434	585,928	320,865	231,366	322,881	186,107	1,722,581
Additions	—	41,026	—	—	—	—	41,026
Disposals	—	(286,691)	—	(144,989)	—	—	(431,680)
Balance as at							
September 30, 2015	75,434	340,263	320,865	86,377	322,881	186,107	1,331,927
<b>Accumulated depreciation</b>							
Balance as at							
December 31, 2014	—	585,928	214,805	173,423	148,984	78,612	1,201,752
Disposals	—	(286,691)	—	(128,820)	—	—	(415,511)
Depreciation	—	1,838	18,530	10,953	26,085	16,124	75,530
Balance as at							
September 30, 2015	—	301,075	233,335	55,556	175,069	94,736	859,771
<b>Net carrying amount as at</b>							
<b>December 31, 2014</b>	75,434	—	106,060	57,943	173,897	107,495	520,829
<b>Net carrying amount as at</b>							
<b>September 30, 2015</b>	75,434	39,188	87,530	30,821	147,812	91,371	472,156

### 7. EXPLORATION AND EVALUATION ASSETS

#### Oil and gas properties

	December 31, 2014 \$	Write-offs \$	Additions \$	September 30, 2015 \$
<b>Québec</b>				
Anticosti <sup>1</sup>	—	—	—	—
Gastonguay	742,103	—	26,160	768,263
Gaspésia – Edgar – Marcel- Tremblay	470,984	—	22,238	493,222
Gaspé <sup>1</sup>	3,429,509	—	76,740	3,506,249
Matapédia	169,830	—	7,916	177,746
Total oil and gas properties	4,812,426	—	133,054	4,945,480



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2015 and 2014

### Exploration expenses

	December 31, 2014	Write-offs	Additions	September 30, 2015
	\$	\$	\$	\$
<b>Québec</b>				
Anticosti	68,626	—	41,050	109,676
Gastonguay	76,823	—	78	76,901
Gaspésia – Edgar – Marcel- Tremblay	3,795,418	—	332	3,795,750
Gaspé	3,020,632	—	329,950	3,350,582
Bourque Project	21,888,692	—	265,829	22,154,521
Haldimand Project	22,971,437	—	3,912,700	26,884,137
Tar Point Project No. 1	5,213,259	—	29,799	5,243,058
Matapédia	1,205,258	—	85	1,205,343
<b>New Brunswick</b>				
Dalhousie	—	—	—	—
	<u>58,240,145</u>	<u>—</u>	<u>4,579,823</u>	<u>62,819,968</u>
	\$	\$	\$	\$
<b>Deductions</b>				
Exploration subsidies and partner contributions:				
Anticosti	5,542	—	306	5,848
Gastonguay	19,020	—	—	19,020
Gaspésia – Edgar – Marcel- Tremblay	428,708	—	33	428,741
Gaspé	704,459	—	6,682	711,141
Bourque Project	8,813,330	—	(78,904)	8,734,426
Haldimand Project	11,325,425	—	2,531,280	13,856,705
Tar Point Project No. 1	1,051,685	—	209	1,051,894
Matapédia	658,824	—	—	658,824
	<u>23,006,993</u>	<u>—</u>	<u>2,459,606</u>	<u>25,466,599</u>
Revenue from oil reserve evaluation:				
Gaspé				
Haldimand Project	295,814	—	15,537	311,351
Total exploration expenses	<u>34,937,338</u>	<u>—</u>	<u>2,104,680</u>	<u>37,042,018</u>



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2015 and 2014

### Summary as at September 30, 2015

	December 31, 2014 \$	Write-offs \$	Additions \$	September 30, 2015 \$
Properties	4,812,426	—	133,054	4,945,480
Exploration expenses	34,937,338	—	2,104,680	37,042,018
Exploration and evaluation assets	39,749,764	—	2,237,734	41,987,498

<sup>1</sup> These properties are subject to royalties should they become productive. To date, the Company has satisfied all required obligations, and only its future or potential obligations and special transactions during the year are described below.

### Exploration subsidies

During the period ended September 30, 2015, the Company recorded a \$160,616 tax credit related to resources [December 31, 2014 – 0\$] as a reduction of exploration expenses.

## 8. TRADE AND OTHER PAYABLES

	As at September 30, 2015 \$	As at December 31, 2014 \$
Trade payables and accrued liabilities	1,654,541	4,478,660
Salaries, vacation pay and director fees	339,120	310,868
Guarantee deposit	—	232,500
Commodity taxes	17,172	—
Partners	9,842	—
Advance from Anticosti Hydrocarbons L.P. [note 13]	78,231	258,819
Contributions to associates [note 13]	21,682	—
	<b>2,120,588</b>	5,280,847



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2015 and 2014

### 9. BANK BORROWINGS

	As at September 30, 2015	As at December 31, 2014
	\$	\$
Ford Credit loan to acquire automotive equipment, repayable in \$600 monthly payments of principal and interest at 2.5% and maturing on November 4, 2019.	28,479	33,299
Less current portion	6,568	6,448
	<u>21,911</u>	<u>26,851</u>

### 10. PROVISION FOR SITE RESTORATION

Management calculates the total provision for future site restoration based on the Company's net share of the estimated costs of abandoning and restoring wells and facilities and the estimated timing of future costs to be incurred.

As at September 30, 2015, the total future estimated amount required to settle obligations related to site restoration, indexed at 2.5% [December 31, 2014 – 3.5%], stood at \$1,127,306 [December 31, 2014 – \$816,220]. The total future amount was discounted using a weighted average rate of 3% [December 31, 2014 – 5.25%] over a 20-year horizon [December 31, 2014 – 15-year horizon]. The total undiscounted amount of the estimated cash flows required to settle these obligations is \$1,134,875 [December 31, 2014 – \$922,375].





## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2015 and 2014

The following table presents the reconciliation of the provision for site restoration:

	As at September 30, 2015	As at December 31, 2014
	[9 months] \$	[12 months] \$
Balance, beginning of period	816,220	718,180
Liabilities incurred	—	73,777
Accretion expense	24,805	24,263
Change in accounting estimates	286,281	—
Amount used	—	—
Balance, end of period	1,127,306	816,220
Current portion of liability	—	—
	<b>1,127,306</b>	<b>816,220</b>

During the period ended September 30, 2015, the Company reviewed the assumptions used in calculating the present value of the estimated future amount required to settle site restoration obligations. This change in accounting estimates resulted in a \$286,281 increase in the provision for site restoration and exploration and evaluation assets and a \$3,474 decrease in accretion expense for the nine-month period.



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2015 and 2014

### 11. SHARE CAPITAL

#### Authorized

Unlimited number of common, participating, voting shares without par value.

	As at September 30, 2015 [9 months]		As at December 31, 2014 [12 months]	
	Number of shares	Amount \$	Number of shares	Amount \$
<b>Issued</b>				
Balance, beginning of period	77,616,695	59,307,265	70,652,372	54,546,758
Share issuance:				
Shares issued	2,728,500	1,609,815	6,949,323	5,064,526
Stock options exercised	—	—	15,000	7,500
Issuance costs		(171,847)		(426,158)
Deferred tax related to issuance costs		48,164		114,639
Balance, end of period	<u>80,345,195</u>	<u>60,793,397</u>	<u>77,616,695</u>	<u>59,307,265</u>

During the nine-month period ended September 30, 2015, the Company issued 2,728,500 flow-through shares under private placements for gross proceeds of \$2,182,800. A liability related to flow-through shares in the amount of \$572,985 was recognized in respect of these investments. Issuance costs of \$171,847 were paid in cash and recognized as a reduction in the Company's share capital.

#### Share-based payments

On October 22, 2004, the Company adopted a stock option plan under which it can grant a maximum of 10% of the number of shares outstanding to its directors, officers, key employees and suppliers on a continuous basis. The exercise price of each option equals the market price on the day prior to the grant of the option. All options must be exercised no later than five years after the date of the grant. The options granted to directors vest immediately and for other participants, over a period of three years.

All share-based employee compensation will be settled in equity. The Company has no legal or constructive obligation to repurchase or settle the options.



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2015 and 2014

The Company's stock options are detailed as follows for the reporting periods presented:

	As at September 30, 2015 [9 months]		As at September 30, 2014 [9 months]	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding, beginning of period	7,522,500	0.97	6,432,500	1.07
Granted	150,000	0.56	405,000	0.67
Exercised	—	—	(15,000)	0.50
Forfeited	(265,000)	0.99	(330,000)	1.10
Outstanding, end of period	7,407,500	0.96	6,492,500	1.01
Exercisable	6,000,000	1.02	4,891,888	1.03

### 12. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is calculated by dividing net income (loss) for the fiscal year by the weighted average number of common shares outstanding during the period. In calculating diluted loss per share for the period ended September 30, 2015, potential common shares, such as certain options and warrants, were not included as they would have the effect of decreasing the loss per share, which would have an antidilutive effect.

Both basic and diluted earnings (loss) per share have been calculated using net income (loss) for the period as the numerator, therefore no adjustment to income (loss) was necessary. The weighted average number of common shares outstanding is increased by the weighted average number of additional common shares that would have been outstanding had all the potentially dilutive shares been converted.



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2015 and 2014

	As at September 30		As at September 30	
	2015 [3 months]	2014 [3 months]	2015 [9 months]	2014 [9 months]
Net income (loss)	\$(406,862)	\$(298,900)	\$(855,414)	\$18,502,753 [Restated [note 5]]
Weighted average number of shares – basic	80,345,195	72,329,039	78,980,945	72,329,039
Dilutive effect of warrants and options	—	—	—	328,972
Weighted average number of diluted shares	80,345,195	72,329,039	78,980,945	72,658,011
Net earnings (loss) per share - basic	\$(0.005)	\$(0.004)	\$(0.011)	\$0.256
Net earnings (loss) per share - diluted	\$(0.005)	\$(0.004)	\$(0.011)	\$0.255

During the quarter ended September 30, 2015, the Company reviewed the calculation of the deferred tax recovery, adjusting it to \$50,004 from \$142,786 for the first quarter of 2015 and to \$112,290 from \$239,773 for the second quarter of 2015. These adjustments resulted in increases in the deferred tax liability by \$92,782 as at March 31, 2015 and by \$126,983 as at June 30, 2015 while the net loss increased and retained earnings decreased by these same amounts for the three-month periods ended March 31, 2015 and June 30, 2015. Those adjustments also increased net loss per share and net diluted loss per share by \$0.001 and \$0.002, respectively, for the three-month periods ended March 31, 2015 and June 30, 2015.

### 13. RELATED PARTY TRANSACTIONS

The Company's related parties include other related parties and key management personnel, as described below.

None of the transactions involve special terms or conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2015 and 2014

### Transactions with key management personnel

Key management personnel compensation includes the following expenses:

	As at September 30, 2015 [9 months] \$	As at September 30, 2014 [9 months] \$
Short-term employee benefits:		
Salaries and employee benefits	333,279	809,734
Termination benefit	220,500	—
Director fees	105,472	93,700
Total short-term employee benefits	659,251	903,434
Fees	72,050	249,750
Share-based compensation	53,281	192,715
Total compensation	784,582	1,345,899

During the periods ended September 30, 2015 and 2014, no options granted under the stock option plan were exercised by key management personnel.

### Related companies and other parties

Transactions were carried out:

With an entity owned by a director:

	As at September 30, 2015 [9 months] \$	As at September 30, 2014 [9 months] \$
Comprehensive income:		
Other expenses	13,100	22,500



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2015 and 2014

With an associate:

	As at September 30, 2015 [9 months] \$	As at September 30, 2014 [9 months] \$
Comprehensive income:		
Project management	<b>97,770</b>	<b>69,190</b>

As at September 30, 2015, an amount of \$21,211 [December 31, 2014 – \$16,786] was receivable from Anticosti Hydrocarbons General Partner Inc., while an amount of \$1,395 [December 31, 2014 – nil] was receivable from Anticosti Hydrocarbons L.P.

In addition, as at September 30, 2015, a contribution of \$11,420 [December 31, 2014 – nil] was payable to Anticosti Hydrocarbons L.P., while a contribution of \$10,262 [December 31, 2014 – nil] was payable to Anticosti Hydrocarbons General Partner Inc.

As at September 30, 2015, Anticosti Hydrocarbons L.P. provided a non-interest bearing advance without repayment terms in the amount of \$78,321 [December 31, 2014 – \$258,819] to the Company. The advanced funds are earmarked for exploration activities scheduled for the next three months.

These transactions were in the normal course of business and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### 14. FINANCIAL INSTRUMENTS

Cash and cash equivalents are measured at fair value. The classification of financial instruments as well as their carrying amounts and fair values are presented in the table below:

	September 30, 2015					
Held to maturity	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value	\$
\$	\$	\$	\$	\$	\$	\$
<b>Financial asset</b>						
Cash and cash equivalents	—	263,518	—	—	263,518	263,518



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2015 and 2014

	December 31, 2014					Total fair value \$
	Held to maturity \$	Fair value through profit or loss \$	Loans and receivables \$	Other financial liabilities \$	Total carrying amount \$	
<b>Financial asset</b>						
Cash and cash equivalents	—	4,871,507	—	—	4,871,507	4,871,507

### 15. CONTINGENCIES

#### Financing

The Company is financed in part by the issue of flow-through shares. However, although it has taken all the necessary measures in this regard, there is no guarantee that the funds spent by the Company regarding these shares will be deemed eligible by tax authorities in the event of an audit. Refusal of certain expenses by the tax authorities would have a negative tax impact for investors. Exploration work commitments that are not respected are subject to a combined tax rate of 26.9% (Canada and Québec). During the nine-month period ended September 30, 2015, the Company received an amount of \$2,182,800 [December 31, 2014 – \$2,506,924] following flow-through private placements for which it renounced the tax deductions in the amount of \$572,985. This amount must be incurred by December 31, 2016. As at September 30, 2015, the balance of eligible expenses to be incurred was \$1,660,428 [December 31, 2014 – \$368,004].

#### Environment

The Company's operations are regulated by governmental laws relating to environmental protection. Environmental consequences are difficult to predict, whether in terms of their outcomes, timing or impact. Currently, to the best of management's knowledge, the Company is operating in compliance with current legislation. The Company is currently in the process of renewing the guarantees provided to the Ministère des Ressources naturelles to secure the completion of certain site closures.



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2015 and 2014

### 16. SUPPLEMENTAL CASH FLOW INFORMATION

#### Items not affecting cash and cash equivalents

	2015 [9 months] \$	2014 [9 months] \$
Receivables related to exploration and evaluation assets	(200,598)	(462,916)
Trade payables related to exploration and evaluation assets	2,786,643	(1,331,147)
Acquisition of property, plant and equipment included under trade payables	(27,278)	—
Contributions payable to associates	(21,682)	—
<b>Other information</b>		
Interest paid	582	89,833
Interest received	23,560	23,119

#### Cash and cash equivalents comprise:

	September 30, 2015 [9 months] \$	September 30, 2014 [9 months] \$
Cash	672,338	789,381
Guaranteed investment certificates (redeemable on demand)	1,251,608	5,254,331
	<b>1,923,946</b>	<b>6,043,712</b>





## **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

For the periods ended September 30, 2015 and 2014

### **17. SUBSEQUENT EVENTS**

On November 4, 2015, the Company confirmed the closing of a private placement, issuing 3,825,000 flow-through shares at \$0.40 per share for gross proceeds of \$1,530,000. In consideration of the services provided in connection with this private placement, intermediary fees in the amount of \$91,800 were paid in cash and recognized as a reduction in the Company's share capital.

On November 6, 2015, the Company completed a second private placement, issuing 8,005,000 units to Ressources Québec inc. and 245,000 units to certain directors at \$0.36 per unit, for gross proceeds of \$2,970,000. Each unit comprises one common share and half a warrant. Each whole warrant entitles the holder to buy a common share at the price of \$0.54 during the 36 months following the closing of this private placement.

Also, on November 6, 2015, Ressources Québec inc. and TUGLIQ Énergie corp. invested \$918,200 and \$1,350,000 in cash, respectively, in consideration of an interest in the four licences related to the Bourque property held by the Company.

**ADMINISTRATIVE AND OPERATING EXPENSES**

For the periods ended September 30

**Schedule A**

	<b>2015</b> [3 months] \$	<b>2014</b> [3 months] \$	<b>2015</b> [9 months] \$	<b>2014</b> [9 months] \$
<b>Administrative expenses</b>				
Share-based compensation	—	—	53,281	192,715
Salaries and employee benefits	189,026	234,267	598,493	903,637
Fees	21,450	42,000	72,050	249,750
Insurance	12,942	13,051	40,795	41,454
Maintenance and office supplies	16,513	27,684	59,986	85,345
Board of Directors fees	52,567	58,010	137,156	140,419
Shareholder reporting	7,363	6,242	74,471	88,994
Rent	28,581	29,149	91,101	109,275
Amortization of deferred lease inducements	(6,850)	(6,850)	(20,550)	(20,550)
Promotion and entertainment	2,057	20,024	12,946	90,018
Travel	14,086	25,757	50,072	132,618
Professional services	9,949	38,169	116,790	349,546
Telecommunications	6,021	6,877	16,793	16,232
Depreciation of property, plant and equipment	6,090	18,575	17,840	80,400
Gain on disposal of property, plant and equipment	(6,144)	—	(3,467)	—
Reversal of a provision	(51,525)	—	(51,525)	—
Other expenses	6,910	5,998	10,502	19,493
Total administrative expenses before re-invoicing of expenses	309,036	518,953	1,276,734	2,479,346
Re-invoicing of expenses	(57,161)	(69,827)	(145,210)	(135,024)
	<b>251,875</b>	<b>449,126</b>	<b>1,131,524</b>	<b>2,344,322</b>
				<b>Schedule B</b>
<b>Operating expenses</b>				
Share-based compensation	23,333	—	23,333	—
Salaries and employee benefits	246,529	282,307	1,030,076	875,288
Insurance	505	381	1,332	1,257
Maintenance and office supplies	41	9,482	443	32,594
Travel	6,029	10,294	13,660	48,083
Training	—	3,130	12,132	4,627
Rent	39,865	39,486	119,084	120,158
Professional services	—	8,650	16,323	18,650
Telecommunications	1,031	1,208	3,064	3,365
Depreciation of property, plant and equipment	18,978	33,954	55,690	137,665
Loss on disposal of property, plant and equipment	—	—	2,188	—
Other expenses	183	—	3,660	5,973
Total administrative expenses before re-invoicing of expenses and transfer to exploration and evaluation assets	336,494	388,892	1,280,985	1,247,660
Re-invoicing of expenses	(178,569)	(220,191)	(440,559)	(379,035)
Transfer to exploration and evaluation assets	(157,925)	(168,701)	(840,426)	(868,625)
	—	—	—	—

## FINANCIAL INCOME AND EXPENSES

For the periods ended September 30

	<b>2015</b> [3 months] \$	<b>2014</b> [3 months] \$	<b>2015</b> [9 months] \$	<b>2014</b> [9 months] \$
Interest income	(4,390)	(12,047)	(23,881)	(43,605)
Bank charges	1,148	1,461	2,870	3,612
Interest on bank borrowings	—	30,215	—	89,833
Accretion expense	8,268	6,066	24,805	18,197
Amortization of financing costs	—	30,654	—	91,962
	<b>5,026</b>	<b>56,349</b>	<b>3,794</b>	<b>159,999</b>