



**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)**

FOR THE PERIODS ENDED SEPTEMBER 30, 2016 AND 2015

**OIL FROM HERE.
BY THE PEOPLE HERE.
FOR HERE.**



CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[in Canadian dollars]

[unaudited]

	As at September 30, 2016 \$	As at December 31, 2015 \$
ASSETS		
Current		
Cash and cash equivalents <i>[Note 3]</i>	1,925,141	3,321,697
Cash and cash equivalents held for exploration <i>[Note 3]</i>	9,795,253	4,201,075
Accounts receivable <i>[Note 4]</i>	1,696,960	1,735,616
Prepaid expenses	878,681	94,676
Inventories	263,823	42,986
Total current assets	14,559,858	9,396,050
Non-current		
Security deposits <i>[Note 17]</i>	600,000	—
Investments in associates <i>[Note 5]</i>	36,593,935	36,583,849
Property, plant and equipment <i>[Note 6]</i>	579,727	446,417
Exploration and evaluation assets <i>[Note 7]</i>	42,440,187	43,419,895
Total non-current assets	80,213,849	80,450,161
	94,773,707	89,846,211
LIABILITIES AND EQUITY		
Current		
Trade and other payables <i>[Note 8]</i>	4,158,165	3,963,782
Current portion of deferred lease inducements	17,278	11,418
Current portion of bank borrowings <i>[Note 9]</i>	6,734	6,609
Partner advances for planned exploration work <i>[Note 10]</i>	6,847,402	1,881,112
Liability related to flow-through shares <i>[Note 11]</i>	300,613	363,655
Total current liabilities	11,330,192	6,226,576
Non-current		
Partners' share in security deposits <i>[Note 10]</i>	293,820	—
Deferred lease inducements	202,189	—
Bank borrowings <i>[Note 9]</i>	15,177	20,243
Provision for site restoration <i>[Note 12]</i>	1,143,316	1,373,060
Deferred income tax liabilities	7,669,798	7,879,371
Total non-current liabilities	9,324,300	9,272,674
Total liabilities	20,654,492	15,499,250
Equity		
Share capital <i>[Note 13]</i>	65,873,458	64,829,868
Contributed surplus	5,818,564	5,756,445
Retained earnings	2,427,193	3,760,648
Total equity	74,119,215	74,346,961
	94,773,707	89,846,211

Contingencies *[Note 17]*

Subsequent events *[Note 19]*

See accompanying notes

On behalf of the Board of Directors,

(signed) Myron Tétrault

On behalf of the Board of Directors,

(signed) Charles Boulanger



CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

[in Canadian dollars]

[unaudited]

For the periods ended September 30

	2016 [3 months] \$	2015 [3 months] \$	2016 [9 months] \$	2015 [9 months] \$
Revenues				
Project management	11,298	22,524	42,109	156,718
Other income	—	998	—	7,166
	11,298	23,522	42,109	163,884
Expenses				
Administrative expenses <i>[Schedule A]</i>	453,591	251,875	1,672,611	1,131,524
Operating expenses <i>[Schedule B]</i>	—	—	—	—
Financial income and expenses <i>[Schedule C]</i>	(19,458)	5,026	(12,260)	3,794
Share of associates <i>[Note 5]</i>	25,691	21,682	98,307	114,238
	459,824	278,583	1,758,658	1,249,556
Loss before taxes	(448,526)	(255,061)	(1,716,549)	(1,085,672)
Deferred tax recovery	(54,807)	151,801	(383,094)	(230,258)
Net loss and comprehensive loss	(393,719)	(406,862)	(1,333,455)	(855,414)
Basic net loss per share <i>[Note 14]</i>	(0.004)	(0.005)	(0.014)	(0.011)
Diluted net loss per share <i>[Note 14]</i>	(0.004)	(0.005)	(0.014)	(0.011)

See accompanying notes



CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in Canadian dollars]
[unaudited]

	Share capital <i>[Note 13]</i> \$	Contributed surplus \$	Retained earnings \$	Total equity \$
Balance as at January 1, 2015	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
Balance as at September 30, 2015	60,793,397	5,557,115	4,457,869	70,808,381
Shares issued	4,270,500	—	—	4,270,500
Share-based compensation	—	199,330	—	199,330
Issuance costs	(317,499)	—	—	(317,499)
Deferred taxes related to issuance costs	83,470	—	—	83,470
Net loss and comprehensive loss	—	—	(697,221)	(697,221)
	4,036,471	199,330	(697,221)	3,538,580
Balance as at January 1, 2016	64,829,868	5,756,445	3,760,648	74,346,961
Shares issued	1,121,625	—	—	1,121,625
Share-based compensation	—	62,119	—	62,119
Issuance costs	(106,446)	—	—	(106,446)
Deferred taxes related to issuance costs	28,411	—	—	28,411
Net loss and comprehensive loss	—	—	(1,333,455)	(1,333,455)
	1,043,590	62,119	(1,333,455)	(227,746)
Balance as at September 30, 2016	65,873,458	5,818,564	2,427,193	74,119,215



CONSOLIDATED STATEMENTS OF CASH FLOWS

[in Canadian dollars]

[unaudited]

For the periods ended September 30

	2016	2015
	[9 months]	[9 months]
	\$	\$
OPERATING ACTIVITIES		
Net loss	(1,333,455)	(855,414)
Items not affecting cash:		
Depreciation of property, plant and equipment	18,052	17,840
Deferred tax recovery	(383,094)	(230,258)
Share-based compensation	58,060	53,281
Amortization of deferred lease inducements	(12,967)	(20,550)
Loss (gain) on disposal of property, plant and equipment	13,903	(3,467)
Accretion expense	4,003	24,805
Share of associates	98,307	114,238
	(1,537,191)	(899,525)
Net change in non-cash operating items <i>[Note 18]</i>		
Accounts receivable	(169,535)	336,445
Prepaid expenses	(773,505)	1,925
Inventories	(220,837)	226,365
Trade and other payables	652,899	(422,576)
	(510,978)	142,159
Cash flows related to operating activities	(2,048,169)	(757,366)
INVESTING ACTIVITIES		
Security deposits	(600,000)	—
Acquisitions of interests in associates	—	(43)
Additions to property, plant and equipment	(6,079)	(13,748)
Acquisitions of oil and gas properties, net of recovered amounts	(131,649)	(133,054)
Increase in deferred exploration costs, net of recovered amounts	(2,362,971)	(4,323,233)
Disposal of interests in the Bourque project <i>[Note 7]</i>	2,000,000	—
Proceeds from disposal of property, plant and equipment	125	17,448
Contributions to associates	(103,863)	(111,702)
Cash flows related to investing activities	(1,204,437)	(4,564,332)
FINANCING ACTIVITIES		
Shares issued	1,250,015	2,182,800
Issuance costs	(191,476)	(171,847)
Advance from partners for the Bourque project	6,396,630	—
Repayment of bank borrowings	(4,941)	(4,820)
Cash flows related to financing activities	7,450,228	2,006,133
Net increase (decrease) in cash and cash equivalents	4,197,622	(3,315,565)
Cash and cash equivalents, beginning of period	7,522,772	5,239,511
Cash and cash equivalents, end of period <i>[Note 18]</i>	11,720,394	1,923,946

See accompanying notes



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2016 and 2015

1. INCORPORATION, NATURE OF OPERATIONS, CONDENSED FINANCIAL INFORMATION AND APPROVAL

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 511 St-Joseph Street, 2nd floor, Suite 304, Québec City, Québec, G1K 3B7.

Condensed interim consolidated financial information

The financial information as at September 30, 2016 and for the nine-month periods ended September 30, 2016 and 2015 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.

Approval date

These condensed interim consolidated financial statements for the nine-month periods ended September 30, 2016 and 2015 were approved by the Board of Directors on November 17, 2016.

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, 2015, including the notes thereto.

All amounts are expressed in Canadian dollars.



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2016 and 2015

3. CASH AND CASH EQUIVALENTS

	As at September 30, 2016 \$	As at December 31, 2015 \$
Cash	9,653,904	3,850,530
Guaranteed investment certificates (redeemable on demand)	2,066,490	3,672,242
	<u>11,720,394</u>	<u>7,522,772</u>
Less: Cash and cash equivalents held for exploration purposes		
Flow-through shares ¹	2,328,161	2,041,067
Bourque Project ²	7,467,092	2,160,008
	<u>9,795,253</u>	<u>4,201,075</u>
Cash and cash equivalents	<u>1,925,141</u>	<u>3,321,697</u>

¹ Cash and cash equivalents held for exploration purposes related to flow-through shares 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.

² Cash and cash equivalents earmarked for future exploration work on the Bourque Project represent the remaining cash as at September 30, 2016 and December 31, 2015 from partner advances which, under the agreements, must be spent on exploration work related to the Bourque Project.

As at September 30, 2016, cash and cash equivalents included guaranteed investment certificates (GICs) bearing interest at 0.80%–1.20% maturing on November 30, 2016. As at December 31, 2015, cash and cash equivalents included GICs bearing interest at 1.20% maturing on March 3, 2016. These instruments are redeemable at any time without penalty.

As at September 30, 2016, a portion of the GICs was pledged as security for the performance bonds issued for total amount of \$630,000 [Note 17].



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2016 and 2015

4. RECEIVABLES

	As at September 30, 2016 \$	As at December 31, 2015 \$
Partners	75,816	145,312
Associates [Note 15]	1,174,981	944,309
Commodity taxes	65,246	156,562
Tax credits receivable	—	160,616
Interest receivable	1,111	3,622
Other	379,806	325,195
	1,696,960	1,735,616

All the amounts have short-term maturities.

5. INVESTMENTS IN ASSOCIATES

During fiscal 2014, the Company completed a transaction that resulted in the limited partnership Anticosti Hydrocarbons L.P. and the general partner Anticosti Hydrocarbons General Partner Inc. The ownership interests of the partners are as follows:

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



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

For the periods ended September 30, 2016 and 2015

	Anticosti Hydrocarbons L.P.	Anticosti Hydrocarbons General Partner Inc.	Total
	\$	\$	\$
Value of the interest as at December 31, 2014	36,564,660	—	36,564,660
Share of net loss for the year ended December 31, 2015	(84,786)	(59,209)	(143,995)
Contributions for the year ended December 31, 2015	103,932	59,209	163,141
Cash amount paid to acquire a 21.7% interest	—	43	43
Value of the interest as at December 31, 2015	36,583,806	43	36,583,849
Share of net loss for the nine-month period ended September 30, 2016	(66,031)	(32,276)	(98,307)
Contributions for the nine-month period ended September 30, 2016	78,690	29,703	108,393
Value of the interest as at September 30, 2016	36,596,465	(2,530)	36,593,935

Financial information

Key financial information for the interests 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, 2016	As at December 31, 2015
	\$	\$
Current assets	2,925,336	2,435,899
Non-current assets	126,065,168	122,770,776
Current liabilities	1,775,381	1,286,069
Non-current liabilities	22,722	22,308
Partners' equity	127,192,401	123,898,298
Revenues	—	—
Net loss and comprehensive loss	(453,724)	(664,590)
Share of Pétrolia [21.7%]	(98,307)	(143,995)



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2016 and 2015

6. PROPERTY, PLANT AND EQUIPMENT

	Land \$	Leasehold improvements \$	IT, office and field equipment \$	Automotive equipment \$	Reserves \$	Field offices \$	Total \$
Gross carrying amount							
Balance as at							
December 31, 2015	75,434	343,049	314,526	86,378	322,881	186,107	1,328,375
Additions	—	225,000	5,187	—	—	—	230,187
Disposals	—	(343,049)	—	—	—	—	(343,049)
Balance as at							
September 30, 2016	75,434	225,000	319,713	86,378	322,881	186,107	1,215,513
Accumulated depreciation							
Balance as at							
December 31, 2015	—	304,684	234,863	58,537	183,763	100,111	881,958
Disposals	—	(313,202)	—	—	—	—	(313,202)
Depreciation	—	12,268	14,731	6,264	20,868	12,899	67,030
Balance as at							
September 30, 2016	—	3,750	249,594	64,801	204,631	113,010	635,786
Net carrying amount as at							
December 31, 2015	75,434	38,365	79,663	27,841	139,118	85,996	446,417
Net carrying amount as at							
September 30, 2016	75,434	221,250	70,119	21,577	118,250	73,097	579,727

7. EXPLORATION AND EVALUATION ASSETS

Oil and gas properties

	December 31, 2015 \$	Transfers \$	Additions \$	September 30, 2016 \$
Québec				
Anticosti ¹	—	—	—	—
Gastonguay	768,263	—	26,420	794,683
Gaspésia – Edgar – Marcel- Tremblay	493,222	—	22,457	515,679
Gaspé ¹	3,304,504	—	48,147	3,352,651
Bourque Project ¹	229,963	(112,682)	12,743	130,024
Matapédia	177,746	—	9,653	187,399
Total oil and gas properties	4,973,698	(112,682)	119,420	4,980,436



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

For the periods ended September 30, 2016 and 2015

Exploration expenses

	December 31, 2015	Transfers	Additions	September 30, 2016
	\$	\$	\$	\$
Québec				
Anticosti	231,304	—	2,104	233,408
Gastonguay	76,900	—	—	76,900
Gaspésia – Edgar – Marcel- Tremblay	3,795,750	—	—	3,795,750
Gaspé	3,429,105	—	101,582	3,530,687
Bourque Project	22,806,587	(2,121,065)	1,811,009	22,496,531
Haldimand Project	28,511,918	—	668,179	29,180,097
Tar Point Project No. 1	5,252,488	—	2,448	5,254,936
Matapédia	1,205,343	—	—	1,205,343
	<u>65,309,395</u>	<u>(2,121,065)</u>	<u>2,585,322</u>	<u>65,773,652</u>

	December 31, 2015	Transfers	Additions	September 30, 2016
	\$	\$	\$	\$
Deductions				
Exploration subsidies and partner contributions:				
Anticosti	5,847	—	—	5,847
Gastonguay	19,020	—	—	19,020
Gaspésia – Edgar – Marcel- Tremblay	428,740	—	—	428,740
Gaspé	711,141	—	—	711,141
Bourque Project	9,135,127	—	1,124,291	10,259,418
Haldimand Project	14,526,382	—	284,780	14,811,162
Tar Point Project No. 1	1,051,894	—	—	1,051,894
Matapédia	658,824	—	—	658,824
	<u>26,536,975</u>	<u>—</u>	<u>1,409,071</u>	<u>27,946,046</u>
Revenue from oil reserve evaluation:				
Gaspé				
Haldimand Project	326,223	—	41,632	367,855
Total exploration expenses	<u>38,446,197</u>	<u>(2,121,065)</u>	<u>1,134,619</u>	<u>37,459,751</u>



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

For the periods ended September 30, 2016 and 2015

Summary as at September 30, 2016

	December 31, 2015	Transfers	Additions	September 30, 2016
	\$	\$	\$	\$
Properties	4,973,698	(112,682)	119,420	4,980,436
Exploration expenses	38,446,197	(2,121,065)	1,134,619	37,459,751
Exploration and evaluation assets	43,419,895	(2,233,747)	1,254,039	42,440,187

¹ These properties are subject to royalties should they become productive. To date, the Company has satisfied all required obligations.

During the nine-month period ended September 30, 2016, no tax credit related to resources was recorded as a reduction of exploration expenses by the Company [December 31, 2015 – \$160,616].

Bourque Project

On July 5, 2016, the Company confirmed the closing of the second phase of financing for the Bourque Project by Ressources Québec inc. for a total amount of \$8,500,000. This investment constitutes a direct interest in the four licences related to the Bourque property, consisting of \$2,000,000 in cash and a \$6,500,000 contribution following a call for funds, for exploration work financing. In consideration for this investment, Ressources Québec inc. obtained 38.8% of the Company's interest in those licences and 1.32% of the interest of TUGLIQ Energy Corp. in those licences. Subsequent to the closing of this second phase of financing, the Company's interest in the four licences relating to the Bourque property stood at 51.03% [December 31, 2015 – 89.91%]; the interest of Ressources Québec inc. amounted to 45% [December 31, 2015 – 4.8%] and that TUGLIQ Energy Corp., 3.97% [December 31, 2015 – 5.29%]. For the nine-month period ended September 30, 2016, the Company received \$6,396,630 from Ressources Québec inc. following calls for funds, out of a total amount of \$6,500,000.

8. TRADE AND OTHER PAYABLES

	As at September 30, 2016	As at December 31, 2015
	\$	\$
Trade payables and accrued liabilities	3,865,325	3,602,372
Salaries, vacation pay and director fees	258,553	300,264
Partners	—	31,389
Contributions to associates [Note 15]	34,287	29,757
	4,158,165	3,963,782



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

For the periods ended September 30, 2016 and 2015

9. BANK BORROWINGS

	As at September 30, 2016 \$	As at December 31, 2015 \$
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.	21,911	26,852
Less current portion	6,734	6,609
	15,177	20,243

10. PARTNER ADVANCES FOR PLANNED EXPLORATION WORK

The following table shows the reconciliation of partner advances for planned exploration work on the Bourque Project:

	As at September 30, 2016 [9 months] \$	As at December 31, 2015 [12 months] \$
Balance, beginning of period	1,881,112	—
Partner advances	6,396,630	2,268,200
Partner contributions for security deposits	(293,820)	—
Partner contributions for the property	(12,229)	—
Partner contributions for work carried out during the period	(1,124,291)	(387,088)
Balance, end of period	6,847,402	1,881,112



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2016 and 2015

11. LIABILITY RELATED TO FLOW-THROUGH SHARES

The following table shows the reconciliation of the liability related to flow-through shares:

	As at September 30, 2016	As at December 31, 2015
	[9 months]	[12 months]
	\$	\$
Balance, beginning of period	363,655	64,942
Issuance of flow-through shares	138,890	802,485
Reduction of the liability based on the work carried out in respect of which the Company has renounced the tax deductions	(201,932)	(503,772)
Balance, end of period	<u>300,613</u>	<u>363,655</u>

12. 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, 2016, the total future estimated amount required to settle obligations related to site restoration, indexed at 2% [December 31, 2015 – 2%], stood at \$1,143,316 [December 31, 2015 – \$1,373,060]. The total future amount was discounted using a weighted average rate of 2.5% [December 31, 2015 – 2.5%] over a horizon ranging from 2 to 20 years [December 31, 2015 – 2- to 20-year horizon]. The total undiscounted amount of the estimated cash flows required to settle these obligations is \$1,148,500 [December 31, 2015 – \$1,395,500].



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED
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For the periods ended September 30, 2016 and 2015

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

	As at September 30, 2016 [9 months] \$	As at December 31, 2015 [12 months] \$
Balance, beginning of period	1,373,060	816,220
Liabilities incurred	—	—
Disposal of interests in the Bourque project [Note 7]	(233,747)	—
Accretion expense	4,003	27,108
Change in accounting estimates	—	529,732
Amount used	—	—
Balance, end of period	1,143,316	1,373,060
Current portion of liability	—	—
	1,143,316	1,373,060

13. SHARE CAPITAL

Authorized

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

	As at September 30, 2016 [9 months]		As at December 31, 2015 [12 months]	
	Number of shares	Amount \$	Number of shares	Amount \$
Issued				
Balance, beginning of period	92,420,195	64,829,868	77,616,695	59,307,265
Share issuance:				
Shares issued	4,679,686	1,121,625	14,803,500	5,880,315
Issuance costs		(106,446)		(489,346)
Deferred tax related to issuance costs		28,411		131,634
Balance, end of period	97,099,881	65,873,458	92,420,195	64,829,868



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

For the periods ended September 30, 2016 and 2015

During the nine-month period ended September 30, 2016, the Company issued 4,629,868 flow-through shares under a private placement for gross proceeds of \$1,250,015. A flow-through share liability amounting to \$138,890 was recognized in respect of this placement. Issuance costs of \$106,446 were paid in cash and recognized as a reduction of the Company's share capital. In addition, the Company issued 50,000 shares under an equity settlement of a \$10,500 liability.

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

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

	As at September 30, 2016 [9 months]	As at December 31, 2015 [12 months]		
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding, beginning of period	8,575,000	0.87	7,522,500	0.97
Granted	675,000	0.21	1,950,000	0.36
Exercised	—	—	—	—
Forfeited	(1,165,000)	1.22	(897,500)	0.65
Outstanding, end of period	8,085,000	0.76	8,575,000	0.87
Exercisable	6,312,500	0.87	6,875,500	0.97



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED
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For the periods ended September 30, 2016 and 2015

14. LOSS PER SHARE

Basic loss per share is calculated by dividing net 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 periods ended September 30, 2016 and 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 be antidilutive.

Both basic and diluted loss per share have been calculated using net loss for the period as the numerator, therefore no adjustment to 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.

	As at September 30, 2016	2015	As at September 30, 2016	2015
	[3 months]	[3 months]	[9 months]	[9 months]
Net loss	\$(393,719)	\$(406,862)	\$(1,333,455)	\$(855,414)
Weighted average number of shares – basic	96,386,889	80,345,195	93,758,282	78,980,945
Dilutive effect of warrants and options	—	—	—	—
Weighted average number of diluted shares	96,386,889	80,345,195	93,758,282	78,980,945
Basic net loss per share	\$(0.004)	\$(0.005)	\$(0.014)	\$(0.011)
Diluted net loss per share	\$(0.004)	\$(0.005)	\$(0.014)	\$(0.011)



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2016 and 2015

15. 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.

Transactions with key management personnel

Key management personnel compensation includes the following expenses:

	As at September 30, 2016 [9 months] \$	As at September 30, 2015 [9 months] \$
Short-term employee benefits:		
Salaries and employee benefits	309,331	553,779
Termination benefit	150,000	—
Director fees	123,098	105,472
Total short-term employee benefits	582,429	659,251
Fees	103,500	72,050
Share-based compensation	47,117	53,281
Total compensation	733,046	784,582

During the periods ended September 30, 2016 and 2015, no options granted under the stock option plan were exercised by key management personnel.



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Related companies and other parties

Transactions were carried out:

With a company in which a director is a majority shareholder:

	As at September 30, 2016 [9 months] \$	As at September 30, 2015 [9 months] \$
Comprehensive loss:		
Other expenses	12,400	13,100

With an associate:

	As at September 30, 2016 [9 months] \$	As at September 30, 2015 [9 months] \$
Comprehensive loss:		
Project management income	29,536	97,770

As at September 30, 2016, an amount of \$1,174,981 [December 31, 2015 – \$944,309] was receivable from Anticosti Hydrocarbons L.P.

In addition, as at September 30, 2016, a contribution of \$29,485 [December 31, 2015 – \$19,637] was payable to Anticosti Hydrocarbons L.P., while a contribution of \$4,802 [December 31, 2015 – \$10,120] was payable to Anticosti Hydrocarbons General Partner Inc.

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.



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2016 and 2015

16. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are measured at fair value or amortized cost. The classification of financial instruments as well as their carrying amounts and fair values are presented in the table below:

	As at September 30, 2016			
	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Total carrying amount
	\$	\$	\$	\$
Financial asset				
Cash and cash equivalents ¹	11,720,394	—	—	11,720,394
Security deposits	—	600,000	—	600,000
Receivables ²	—	1,631,714	—	1,631,714
	11,720,394	2,231,714	—	13,952,108
Financial liability				
Trade and other payables	—	—	4,158,165	4,158,165
Partners' share in security deposits			293,820	293,820
Bank borrowings	—	—	21,911	21,911
	—	—	4,473,896	4,473,896
	As at December 31, 2015			
	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Total carrying amount
	\$	\$	\$	\$
Financial asset				
Cash and cash equivalents ¹	7,522,772	—	—	7,522,772
Receivables ²	—	1,418,438	—	1,418,438
	7,522,772	1,418,438	—	8,941,210
Financial liability				
Trade and other payables	—	—	3,963,782	3,963,782
Bank borrowings	—	—	26,852	26,852
	—	—	3,990,634	3,990,634

¹ Fair value of cash and cash equivalents is equal to the carrying amount.

² Excluding tax credits and commodity taxes as these amounts do not represent a contractual right to receive an amount.



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2016 and 2015

17. 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, 2016, the Company received \$1,250,015 [December 30, 2015 – \$3,712,800] in private placements following the issuance of flow-through shares for which it renounced a tax deduction of \$138,890 [December 31, 2015 – \$802,485]. As at September 30, 2016, the remaining eligible expenses to be incurred totalled \$2,328,161 [December 31, 2015 – \$2,041,067] with \$1,078,146 to be committed by December 31, 2016 and \$1,250,015 by December 31, 2017.

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. During the nine-month period ended September 30, 2016, guarantee deposits amounting to \$600,000 were paid by the Company under performance guarantees. Letters of guarantee amounting to \$630,000 were issued by a financial institution to the Ministère des Ressources naturelles to guarantee the completion of certain site closures.



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended September 30, 2016 and 2015

Anticosti Hydrocarbons L.P.

On July 12, 2016, in connection with Anticosti Hydrocarbons L.P.'s exploration work for which the Company serves as operator, the Company filed an application for an injunction to require its project partners, Ressources Québec inc. and Saint-Aubin E&P (Québec) inc., to fulfil their contractual engagements. On July 25, 2016, the Superior Court justice acknowledged the clear obligation of Ressources Québec inc. and Saint-Aubin E&P (Québec) inc. to fund the exploration program and issued orders accordingly. In this regard, the judgment acknowledged the Company's financial requirements and ordered its partners to provide for the Company's administrative and day-to-day expenses on a monthly basis until May 2017. In addition to these orders, the court also acknowledge the commitment of Ressources Québec inc. and Saint-Aubin E&P (Québec) inc. to finance forthwith the construction of drilling platforms.

Litigation

The Company is subject to certain legal disputes in the normal course of business. Management believes that the Company has set aside sufficient provisions to cover potential losses in relation to such litigation.

18. SUPPLEMENTAL CASH FLOW INFORMATION

Items not affecting cash and cash equivalents

	2016 [9 months] \$	2015 [9 months] \$
Receivables related to exploration and evaluation assets	(208,191)	(200,598)
Trade payables related to exploration and evaluation assets	377,124	2,786,643
Additions to property, plant and equipment included under trade payables	892	(27,278)
Additions to property, plant and equipment in consideration for deferred lease inducements	225,000	—
Shares issued in consideration for prepaid expenses	10,500	—
Share issuance costs included under trade payables	85,030	—
Contributions to associates included under other payables	4,530	(21,682)
Other information		
Interest paid	461	582
Interest received	25,573	23,560



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED
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For the periods ended September 30, 2016 and 2015

Cash and cash equivalents comprise:

	As at September 30, 2016	As at September 30, 2015
	[9 months]	[9 months]
	\$	\$
Cash	9,653,904	672,338
Guaranteed investment certificates, redeemable on demand	2,066,490	1,251,608
	<u>11,720,394</u>	<u>1,923,946</u>

19. SUBSEQUENT EVENTS

On October 27, 2016, the Company confirmed the closing of a private placement, issuing 6,077,579 flow-through shares at a price of \$0.19 per share for gross proceeds of \$1,154,740. In consideration for the services provided in connection with this private placement, finder's fees amounting to \$75,000 were paid in cash and recognized as a reduction in the Company's share capital.

ADMINISTRATIVE AND OPERATING EXPENSES

For the periods ended September 30

Schedule A

	2016 [3 months] \$	2015 [3 months] \$	2016 [9 months] \$	2015 [9 months] \$
Administrative expenses				
Share-based compensation	35,516	—	58,060	53,281
Salaries and employee benefits	157,855	189,026	744,995	598,493
Fees	60,600	21,450	103,500	72,050
Insurance	11,734	12,942	31,504	40,795
Maintenance and office supplies	19,122	16,513	55,922	59,986
Board of Directors fees	52,181	52,567	154,642	137,156
Shareholder reporting	26,993	7,363	55,813	74,471
Rent	8,560	28,581	38,905	91,101
Amortization of deferred lease inducements	(1,549)	(6,850)	(12,967)	(20,550)
Promotion and entertainment	—	2,057	6,955	12,946
Travel	15,306	14,086	47,269	50,072
Professional services	109,489	9,949	562,742	116,790
Telecommunications	4,394	6,021	16,899	16,793
Depreciation of property, plant and equipment	5,813	6,090	18,052	17,840
Loss (gain) on disposal of property, plant and equipment	14,028	(6,144)	13,903	(3,467)
Reversal of a provision	—	(51,525)	—	(51,525)
Other expenses	608	6,910	29,411	10,502
Total administrative expenses before re-invoicing of expenses	520,650	309,036	1,925,605	1,276,734
Re-invoicing of expenses ¹	(67,059)	(57,161)	(252,994)	(145,210)
	453,591	251,875	1,672,611	1,131,524
Schedule B				
Operating expenses				
Share-based payments	4,059	23,333	4,059	23,333
Salaries and employee benefits	219,315	246,529	686,547	1,030,076
Insurance	104	505	1,028	1,332
Maintenance and office supplies	124	41	1,112	443
Travel	262	6,029	2,190	13,660
Training	333	—	333	12,132
Rent	10,775	39,865	50,827	119,084
Amortization of deferred lease inducements	(3,984)	—	(3,984)	—
Professional services	—	—	15,812	16,323
Telecommunications	864	1,031	2,223	3,064
Depreciation of property, plant and equipment	17,481	18,978	48,978	55,690
Loss on disposal of property, plant and equipment	15,819	—	15,819	2,188
Other expenses	144	183	2,445	3,660
Total operating expenses before re-invoicing of expenses and transfer to exploration and evaluation assets	265,296	336,494	827,389	1,280,985
Re-invoicing of expenses ¹	(78,234)	(178,569)	(305,250)	(440,559)
Transfer to exploration and evaluation assets	(187,062)	(157,925)	(522,139)	(840,426)
	—	—	—	—

¹ Re-invoiced expenses are mainly composed of salaries and employee benefits

**FINANCIAL INCOME AND EXPENSES**

For the periods ended September 30

	2016 [3 months] \$	2015 [3 months] \$	2016 [9 months] \$	2015 [9 months] \$
Interest income	(7,434)	(4,390)	(23,062)	(23,881)
Bank charges	1,139	1,148	5,709	2,870
Interest expense	—	—	1,090	—
Accretion expense	(13,163)	8,268	4,003	24,805
	(19,458)	5,026	(12,260)	3,794