Quebec's Leader in Oil Exploration

Consolidated Financial Statements

December 31, 2014

INDEPENDENT AUDITORS' REPORT

To the shareholders of
Pétrolia Inc.

We have audited the accompanying consolidated financial statements of **Pétrolia Inc.** (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the year ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Pétrolia Inc.** as at December 31, 2014, and of its financial performance and its cash flows for the year ended December 31, 2014 in accordance with International Financial Reporting Standards.

Observations

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company is at the exploration stage and that it does not generate revenues from its primary business activity. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that raises substantial doubt about the Company's ability to continue as a going concern.

Other matter

The financial statements of Pétrolia Inc. for the year ended December 31, 2013 and the statement of financial position as at January 1, 2013 were audited by other auditors who expressed an unmodified opinion on those statements on March 13, 2014.

Ernst & Young LLP[1]

Québec City, Canada
March 26, 2015

[1] CPA auditor, CA, public accountancy permit No. A109180

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[in Canadian dollars]

As at December 31

	2014	2013
	$	$
ASSETS		
Current		
Cash and cash equivalents *[Note 5]*	**4,871,507**	4,082,904
Cash and cash equivalents held for exploration purposes *[Note 5]*	**368,004**	904,737
Receivables *[Note 6]*	**1,074,645**	4,633,279
Prepaid expenses	**176,397**	105,287
Inventories	**857,579**	—
Investments *[Note 8]*	**—**	930,000
Total current assets	**7,348,132**	10,656,207
Non-current		
Interest in an affiliate *[Note 7]*	**36,564,660**	—
Property, plant and equipment *[Note 9]*	**520,829**	735,918
Exploration and evaluation assets *[Note 10]*	**39,749,764**	41,687,247
Total non-current assets	**76,835,253**	42,423,165
	84,183,385	53,079,372
LIABILITIES AND EQUITY		
Current		
Trade and other payables *[Note 11]*	**5,280,847**	1,735,527
Current portion of deferred lease inducements	**27,400**	27,400
Current portion of bank borrowings *[Note 12]*	**6,448**	2,886,528
Liability related to flow-through shares	**64,942**	212,416
Total current liabilities	**5,379,637**	4,861,871
Non-current		
Deferred lease inducements	**11,418**	38,818
Bank borrowings *[Note 12]*	**26,851**	—
Provision for site restoration *[Note 13]*	**816,220**	718,180
Deferred tax liabilities *[Note 14]*	**7,848,210**	357,762
Total non-current liabilities	**8,702,699**	1,114,760
Total liabilities	**14,082,336**	5,976,631
Equity		
Share capital *[Note 15]*	**59,307,265**	54,546,758
Contributed surplus	**5,480,501**	4,824,472
Retained earnings (deficit)	**5,313,283**	(12,268,489)
Total equity	**70,101,049**	47,102,741
	84,183,385	53,079,372

Going concern *[Note 1]*

Lease, commitments and contingencies *[Notes 16, 22 and 23]*

Subsequent events *[Note 25]*

See accompanying notes

On behalf of the Board

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Director

On behalf of the Board

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Director

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

[in Canadian dollars]

Years ended December 31

	2014 [12 months] $	2013 [15 months] $
Revenues		
Project management	**313,983**	67,374
Other income	**52,226**	15,048
Gain on transfer of certain permits *[Note 7]*	**28,059,532**	—
	28,425,741	82,422
Expenses		
Administrative expenses *[Schedule A]*	**3,531,419**	5,862,354
Operating expenses *[Schedule B]*	**—**	—
Financial income and expenses *[Schedule C]*	**197,885**	(21,012)
Write-off of exploration and evaluation assets *[Note 10]*	**—**	891,317
Loss on disposal of property, plant and equipment	**—**	3,576
Interest in an associate *[Note 7]*	**99,450**	—
	3,828,754	6,736,235
Income (loss) before taxes	**24,596,987**	(6,653,813)
Deferred tax (recovery) *[Note 14]*	**7,015,215**	(1,128,404)
Net income (loss) and comprehensive income (loss)	**17,581,772**	(5,525,409)
Basic net earnings (loss) per share *[Note 18]*	**0.237**	(0.081)
Diluted net earnings (loss) per share *[Note 18]*	**0.237**	(0.081)

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in Canadian dollars]

Years ended December 31

	Share capital	Contributed surplus	Retained earnings (deficit)	Total equity
	$	$	$	$
Balance as at September 30, 2012	51,378,040	3,026,923	(6,743,080)	47,661,883
Shares issued	2,974,107	—	—	2,974,107
Stock options exercised	478,600	(194,200)	—	284,400
Share-based compensation	—	1,986,025	—	1,986,025
Broker warrants	—	5,724	—	5,724
Issuance costs	(388,494)	—	—	(388,494)
Deferred taxes related to compensation issuance costs	104,505	—	—	104,505
Net loss and comprehensive loss [15 months]	—	—	(5,525,409)	(5,525,409)
	3,168,718	1,797,549	(5,525,409)	(559,142)
Balance as at December 31, 2013	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	**—**	**656,029**	**—**	**656,029**
Issuance costs	**(426,158)**	**—**	**—**	**(426,158)**
Deferred taxes related to issuance costs	**114,639**	**—**	**—**	**114,639**
Net income and comprehensive income [12 months]	**—**	**—**	**17,581,772**	**17,581,772**
	4,760,507	**656,029**	**17,581,772**	**22,998,308**
Balance as at December 31, 2014	**59,307,265**	**5,480,501**	**5,313,283**	**70,101,049**

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in Canadian dollars]

Years ended December 31

	2014 [12 months] $	2013 [15 months] $
OPERATING ACTIVITIES		
Net income (loss)	**17,581,772**	(5,525,409)
Items not affecting cash:		
Depreciation of property, plant and equipment	**101,312**	129,447
Amortization of financing costs	**112,404**	10,219
Loss on disposal of property, plant and equipment	**—**	3,576
Deferred tax (recovery)	**7,015,215**	(1,128,404)
Share-based compensation	**498,207**	1,685,017
Amortization of deferred lease inducements	**(27,400)**	(34,251)
Non-cash gain on transfer of ownership of certain licences	**(28,059,532)**	—
Write-off of exploration and evaluation assets	**—**	891,317
Accretion expense	**24,263**	40,630
Interest in an associate	**99,450**	—
	(2,654,309)	(3,927,858)
Net change in non-cash working capital items *[Note 24]*		
Accounts receivable	**(648,770)**	958,343
Prepaid expenses	**(71,110)**	7,787
Inventories	**(857,579)**	51,470
Trade and other payables	**809,984**	(117,422)
	(767,475)	900,178
Cash flows related to operating activities	**(3,421,784)**	(3,027,680)
INVESTING ACTIVITIES		
Proceeds from investments	**—**	150,000
Acquisition of an interest in an associate	**(1,933,333)**	—
Additions to property, plant and equipment	**(29,330)**	(80,522)
Proceeds from disposal of property, plant and equipment	**—**	1,000
Acquisition of oil and gas properties	**(162,345)**	(351,147)
Decrease (increase) in deferred exploration costs, net of recovered amounts	**3,872,776**	(8,276,821)
Disposal of investment	**930,000**	—
Contribution to an associate	**(80,304)**	—
Costs related to the acquisition of an interest in an associate	**(1,013,144)**	—
Cash flows related to investing activities	**1,584,320**	(8,557,490)
FINANCING ACTIVITIES		
Shares issued	**5,514,424**	3,837,010
Share issuance costs	**(426,158)**	(382,770)
Additional financing, net of financing costs	**—**	2,876,309
Repayment of bank borrowings	**(2,998,932)**	—
Cash flows related to financing activities	**2,089,334**	6,330,549
Net increase (decrease) in cash and cash equivalents	**251,870**	(5,254,621)
Cash and cash equivalents, beginning of period	**4,987,641**	10,242,262
Cash and cash equivalents, end of period *[Note 5]*	**5,239,511**	4,987,641

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

1. INCORPORAITON, NATURE OF BUSINESS, CHANGE IN YEAR-END, GOING CONCERN UNCERTAINTY AND APPROVAL

Incorporation and nature of business

The Company, incorporated under Part 1A 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.

Change in year-end

In 2013, the Company changed its fiscal year-end from September 30 to December 31. Most public oil and gas companies have a fiscal year-end as at December 31. Pétrolia sought to align its year-end with industry counterparts to make it easier for financial analysts to track its share price. As a result, fiscal 2013 comprised 15 months compared with 12 months for fiscal 2014. The amounts presented in the consolidated financial statements are not entirely comparable.

Going concern uncertainty

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 end of the fiscal year ended December 31, 2014. 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 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.

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 those funds will not be sufficient to meet the Company's anticipated obligations and expenses through to December 31, 2015. 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.

Approval date

These consolidated financial statements were approved by the Board of Directors and authorized for issue on March 26, 2015.

2. SIGNFICANT ACCOUNTING POLICIES

The significant accounting policies used in preparing these consolidated financial statements are summarized below:

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and set out in the *CPA Canada Handbook*.

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value. The Company has elected to present its consolidated statement of income (loss) by function.

2.2 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates [the "functional currency"]. The functional currency and presentation currency of the Company is the Canadian dollar.

2.3 Principles of consolidation

These consolidated financial statements include the accounts of the Company and the subsidiaries that it controls. The Company controls an entity when it has the power to direct the relevant activities and has the ability to use its power to affect the amount of its returns. Subsidiaries are fully consolidated from the date the Company acquires control and are deconsolidated on the date control ends. Intercompany transactions and balances and unrealized gains and losses on transactions between these entities are eliminated.

These consolidated financial statements include the financial statements of the Company and the following subsidiaries as at December 31, 2014:

Subsidiary	Interest (as a %)	Location	Description
Pétrolia Anticosti inc.	100	Canada	Appointed operator of Anticosti Hydrocarbons L.P.
Investissement PEA inc.	100	Canada	Holding company with the investment in Anticosti Hydrocarbons L.P.

2.4 Revenue recognition

Investment operations are recognized on the operation date. Income is earned with the passage of time and is recorded on an accrual basis. Revenue from project management is recognized as projects are realized. Other income is recognized when the services are provided.

For the years ended December 31, 2014 and 2013

2.5 Financial instruments

The Company categorizes its financial instruments by class based on their nature and characteristics. Management determines the classification on initial recognition, which is normally the date of the transaction.

All income and expenses associated with financial instruments are presented in financial income and expenses.

Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when acquired principally for the purpose of selling in the near term, such as held-for-sale financial assets, or if so designated by management. Instruments in this category include cash and cash equivalents.

Financial instruments included in this category are initially and subsequently measured at fair value. Directly attributable transaction costs and changes in fair value are recognized in the consolidated statements of income (loss). Instruments in this category are presented in current assets.

(b) Loans and receivables and held-to-maturity financial assets

Loans and receivables and held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented in current assets when they are recoverable within 12 months of the end of the period; otherwise, they are classified as non-current assets.

The instruments in this category include accounts payable excluding sales taxes, tax credits receivable and short-term investments.

The financial instruments in this category are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the effective interest method.

At the end of each reporting period, the Company determines whether there is objective evidence of an impairment loss on a financial asset as a result of one or more events that occurred after the initial recognition of the financial asset affecting the asset's estimated future cash flows. Impairment losses are recognized under financial expenses in the consolidated statements of income (loss) and comprehensive income (loss).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

(c) Other financial liabilities

Financial instruments in this category are initially measured at fair value, net of transaction costs, and subsequently at amortized cost. Any difference between the initial carrying amount and redemption value is recognized through net income (loss) over the contractual term using the effective interest method. They are presented in current liabilities when they are recoverable within 12 months of the end of the period; otherwise, they are classified as non-current liabilities. Financing costs are amortized over the term of the loan using the effective interest method. This item includes trade and other payables, and bank indebtedness.

(d) Fair value measurement

Fair value hierarchy

Financial instruments measured or disclosed at fair value are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy has the following levels:

Level 1 – Quoted prices [unadjusted] in active markets for identical assets or liabilities: cash is categorized within this level;

Level 2 – Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly [i.e. as prices] or indirectly [i.e. derived from prices]: cash equivalents, investments and bank borrowings are categorized within this level;

Level 3 – Valuation techniques for which any significant input for the asset or liability is not based on observable market data [unobservable inputs].

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

For bank borrowings, the carrying amount approximates fair value given the instrument's short-term maturity or that it bears interest at rates in line with market rates for similar financial instruments.

2.6 Basic and diluted net earnings (loss) per share

Basic net earnings (loss) per share are calculated by dividing net income attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted net earnings (loss) per share is determined by adjusting the net income (loss) attributable to common shareholders of the Company and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. Dilutive potential common shares are to be deemed to have been converted into common shares at the beginning of the period or, if later, the date of the issue of the potential common shares.

For the purpose of calculating diluted net earnings (loss) per share, the exercise of dilutive options and warrants of the entity is to be assumed.

2.7 Cash and cash equivalents

The Company's cash and cash equivalents consist of cash and short-term investments with maturities of three months or less from the date of acquisition or highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.8 Short-term investments

Short-term investments consist of guaranteed investment certificates with original maturities greater than three months.

2.9 Inventories

Inventories are measured at the lower of cost, determined using the average cost method, and net realizable value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

2.10 Property, plant and equipment

Property, plant and equipment are recorded at historical cost less any accumulated impairment losses. Historical cost includes all costs directly attributable to the acquisition. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Property, plant and equipment are depreciated over their expected useful lives using the following methods and period or annual rates:

	Method	Rate and period
Leasehold improvements	Straight-line	3 years
Office and field equipment	Declining balance	20%
IT equipment	Declining balance	30%
Automotive equipment	Declining balance	30%
Reserves	Declining balance	20%
Field offices	Declining balance	20%

Estimates of residual values, useful lives and depreciation methods are reviewed at each fiscal year-end, taking into account the nature of the assets, intended use and technology developments. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation expense for each period is recognized in income (loss), except for certain items of property, plant and equipment related to exploration activities whose depreciation expense is included in the carrying amount of an exploration asset when such items are used in specific exploration projects. Depreciation of an asset ceases when the asset is classified as held for sale or when the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Property, plant and equipment are derecognized upon disposal or when no future economic benefits are expected from their use or disposal.

The gain or loss arising from the disposal of an item of property, plant and equipment is the difference between the disposal proceeds and the net carrying amount of the asset and is recognized in net income (loss) and presented separately in other income or other expenses, unless the depreciation of an item of property, plant and equipment was capitalized in exploration and evaluation asset expenses, in which case the gain or loss is recognized as an increase or a decrease in the exploration and evaluation asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

2.11 Exploration and evaluation assets

Exploration and evaluation assets include costs of acquiring oil rights and the expenses related to the exploration and evaluation of oil and gas properties. These assets are recognized as intangible assets and carried at cost less any impairment losses, government assistance, refundable duties, and partner contributions.

Costs incurred before the legal rights are acquired to undertake exploration and evaluation activities are recognized through net income (loss) when they are incurred. All costs of acquiring oil rights and the expenses related to exploration and evaluation activities are capitalized on a property-by-property basis pending determination of the technical feasibility and commercial viability of extracting an oil or gas resource. No amortization is recognized during the exploration and evaluation phase. In particular, capitalized costs include topographical, geological, geochemical and geophysical studies, exploration drilling, trenching, sampling, activities related to the evaluation of the technical feasibility and the commercial viability of extracting an oil resource, and share-based payments related to exploration and evaluation assets.

Whenever a project is considered no longer viable or is abandoned, the capitalized amount is written down to its recoverable amount and the difference is then immediately recognized in net income (loss).

When the technical feasibility and commercial viability of extracting a resource are demonstrable, the exploration and evaluation assets related to the oil property are transferred to *Oil assets under construction*. Before the transfer, exploration and evaluation assets are tested for impairment, and any impairment loss is recognized through net income (loss) before reclassification.

Once exploration and evaluation assets are transferred to *Oil assets under construction*, all subsequent costs related to construction, installation and completion of equipment and facilities are capitalized in *Oil assets under construction*. Once the development phase is complete, all assets included in *Oil assets under construction* are transferred to *Oil assets* and depreciated over their useful lives. At present, no commercial viability of extracting an oil resource has been demonstrated.

The Company performs work on behalf of Anticosti Hydrocarbons L.P. and the expense carry is applied against administrative and operating expenses under *Re-invoicing of expenses* in the schedules to the consolidated financial statements.

2.12 Impairment of non-financial assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows [cash-generating units]. Consequently, some assets are tested individually and others are tested at the cash-generating unit level. Management assesses the impairment of exploration and evaluation assets on a property-by-property basis; each property constitutes a potential cash-generating unit. All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. In addition, if the technical feasibility and commercial viability of extracting an oil resource is demonstrable, the exploration and evaluation assets related to the corresponding oil and gas property must be tested for impairment before being transferred to *Oil assets*.

An impairment loss is recognized for the amount by which the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less cost to sell and its value in use. To determine value in use, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows.

An impairment loss is recognized immediately in the statement of comprehensive income (loss) and is used to reduce the individual asset or allocated pro-rata to the assets of the cash-generating unit. All assets are subsequently reassessed to determine whether there is any indication that previously recognized impairment losses may no longer exist. An impairment loss is reversed if the recoverable amount of an asset or cash-generating unit exceeds its carrying value but must not exceed the carrying value that would have been determined, net of depreciation, if no impairment had been recorded.

Disposal of interest in connection with option agreements

On the disposal of an interest in connection with option agreements, the Company does not recognize expenses related to the exploration and evaluation performed on the property by the acquirer. In addition, the cash considerations received directly from the acquirer are credited against the carrying amount of the expenses previously capitalized, and any surplus is recognized as a gain on the disposal of exploration and evaluation assets in net income (loss).

2.13 Interest in an associate

The Company owns 21.7% of the units of Anticosti Hydrocarbons L.P. and a Company representative serves on the board of directors of said limited partnership and participates in financial and operating policy decisions. Management has concluded that it exercises significant influence over this associate and has accounted for its interest using the equity method in its consolidated financial statements.

2.14 Provision for site restoration

A provision for environmental restoration is recognized when:

[i] The Company has a present legal or constructive obligation as a result of past events;
[ii] It is more likely than not that an outflow of resources will be required to settle the obligation; and
[iii] The amount can be reliably estimated.

The Company recognizes the estimated value of a future obligation associated with the provision for site restoration related to oil and gas properties as a liability in the period in which it is incurred. The value is capitalized and amortized over the same period as the underlying asset. The Company estimates the liability based on the estimated cost to abandon and reclaim a site in relation to its net ownership interest in the wells and facilities, including the estimated schedule of costs that will be incurred for that purpose in future periods. This estimate is periodically reviewed and changes are recorded prospectively as an increase or decrease in the liability. Changes in the net present value of the future liability associated with site restoration are accounted for as an accretion expense on a time-proportionate basis and recognized in income (loss) for the period. Actual costs incurred upon settlement of the liability are charged to the liability up to the amount of the liability recognized.

2.15 Government assistance and partner contributions

Resources-related tax credits, subsidies for exploration expenses and partner contributions are recorded as a reduction of exploration expenses.

In the event of any differences between the amounts of government assistance claimed by the Company and the amounts granted by the tax authorities, the resulting gain or loss is recognized in the fiscal year in which the differences are determined.

2.16 Operating leases

Leases in which a significant portion of the risks and rewards are retained by the lessor are classified as operating leases. Payments made under operating leases are recognized as an expense on a straight-line basis over the lease term. Related costs, such as those relating to maintenance and insurance, are recognized as expenses as they are incurred.

Lease inducements obtained on signing a lease are recognized as a liability and amortized on a straight-line basis over the lease term.

2.17 Taxes

The Company follows the deferred tax asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between the carrying amount and tax basis of assets and liabilities. Any change in the net amount of deferred assets and liabilities is recorded in income (loss). Deferred tax assets and liabilities are measured using substantively enacted and enacted tax rates and laws expected to apply to taxable income in the years in which the differences are expected to be recovered or settled. Deferred income tax assets are recognized when it is probable that they will be realized. Deferred income tax assets and liabilities are not discounted.

Tax expense includes current and deferred tax. This expense is recognized in net income (loss), except for the tax related to items included in equity, in which case it is recognized in equity.

Under tax legislation for flow-through investments, the Company is required to renounce deductions for expenses related to exploration and evaluation activities in favour of investors. When the Company foregoes tax deductions and incurs eligible expenses, the forfeited tax deductions are recognized in income (loss) as an increase in deferred tax and a deferred tax liability is recognized for the temporary difference between the carrying value of the eligible expenses capitalized as assets and its tax basis.

Current tax assets or liabilities are obligations or claims for current or prior periods to be recovered from (or paid to) tax authorities that are still outstanding at the end of the reporting period. Current tax is payable on taxable profit, which differs from net income (loss). It is calculated using tax rates and laws enacted at the end of the reporting period.

2.18 Equity

Share capital

Share capital is recorded at the subscribed value of the shares issued. Costs related to the issuance of shares, warrants or stock options are recognized in equity, net of taxes, as a deduction of the issuance proceeds in the year of transaction.

Contributed surplus

Contributed surplus includes expenses associated with stock options and broker warrants until the options are exercised.

Issuance of flow-through shares

The Company finances the cost of some exploration and evaluation assets through the issuance of flow-through shares. The issuance of flow-through shares is accounted for as a compound financial instrument. The liability component represents the obligation to transfer tax deductions to investors. Proceeds from the issuance of shares by flow-through investments are allocated to flow-through shares issued and a liability using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and any residual amount is allocated to the liability, which is reversed through income (loss) under deferred tax recovery when the eligible expenses are incurred.

Retained earnings (deficit)

Retained earnings (deficit) include all current and prior period retained profits and losses.

For the years ended December 31, 2014 and 2013

2.19 Share-based compensation

The Company has an equity-settled, share-based compensation plan for eligible directors, employees and consultants. The plan does not include a cash-settlement option. The Company occasionally issues broker warrants.

All goods and services received in exchange for share-based compensation awards are measured at fair value. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. The same method is used for transactions with consultants who receive share-based payments and provide services whose fair value cannot be reliably determined. The fair value is measured at the date of grant.

Share-based payments, except broker warrants, are ultimately expensed in income (loss) or capitalized as exploration and evaluation assets, depending on the nature of the payment, with a corresponding credit to contributed surplus within equity. Share-based payments to brokers, in connection with equity financing, are recognized as costs related to the issuance of equity instruments, with a corresponding credit to contributed surplus within equity.

Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense in prior periods if share options ultimately exercised are different from that estimated on vesting.

When a share option or broker warrant is exercised, the proceeds received net of any directly attributable transaction costs are recorded in share capital. The accumulated expenses related to the share options and broker warrants recorded in contributed surplus are transferred to share capital.

2.20 Segmented information

Segmented information is reported in accordance with IFRS 8, *Operating Segments*, which requires the Company to present and disclose segmented information in accordance with the information that is regularly reviewed by the chief operating decision-makers, namely the President and the Board of Directors, to assess the Company's performance.

The Company has determined that it has only one operating segment: the exploration and evaluation segment.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

The standards issued by the IASB, set out in the *CPA Canada Handbook*, that were not applicable as at the date of issue of the Company's consolidated financial statements are described below.

The Company will adopt those standards in forthcoming fiscal years.

IFRS 15, *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which constitutes a single standard for the recognition of revenue from all contracts with customers, except for insurance contracts, lease contracts and financial instruments. This new standard sets out a single, five-step model for recognizing revenues. This standard will be effective for fiscal years beginning on or after January 1, 2017. The Company is currently assessing the impact of this standard on its consolidated financial statements.

IAS 16, *Property, Plant and Equipment*, and IAS 38, *Intangible Assets*

In May 2014, the IASB issued amendments to IAS 16, *Property, Plant and Equipment*, and IAS 38, *Intangible Assets*. This amendment entitled, "Clarification of Acceptable Methods of Depreciation and Amortisation," clarifies that revenue-based methods should not be used to calculate depreciation and amortization. The depreciation and amortization of recognized assets must reflect a pattern of consumption of the assets rather than the economic benefits from the assets. These amended standards will be effective for fiscal years beginning on or after January 1, 2016. Adoption of these amended standards will have no impact on the Company's consolidated financial statements.

IFRS 11, *Joint Arrangements*

In May 2014, the IASB issued an amendment to IFRS 11, *Joint Arrangements*, entitled "Accounting for Acquisitions of Interests in Joint Operations." The amendment clarifies that an acquisition of an interest in a joint operation that is a business should be accounted for and disclosed as a business combination in accordance with IFRS 3, *Business Combinations*. This amended standard will be applied prospectively to the financial statements for fiscal years beginning on or after January 1, 2016. The Company is currently assessing the impact of this amended standard on its consolidated financial statements.

IFRS 9, *Financial Instruments*

In July 2014, the IASB issued IFRS 9, *Financial Instruments*, which makes the following changes to the recognition of financial instruments:

- The classification and measurement approach for financial assets must reflect the business model with which they are managed and their cash flow characteristics;
- Impairment is to be based on the expected credit loss model;
- Hedge accounting must take into account the entity's risk management practices.

This standard will be applied retrospectively for fiscal years beginning on or after January 1, 2018. The Company is currently assessing the impact of this standard on its consolidated financial statements.

4. JUDGMENTS, ESTIMATES AND ASSUMPTIONS

When preparing the consolidated financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, revenues and expenses. Actual results may differ from the estimates, assumptions and judgments made by Management, and will seldom equal the estimated results. Information about the significant judgments, estimates and assumptions that have the most impact on the recognition and measurement of assets, liabilities, revenues and expenses are discussed below.

4.1 Judgment

Exploration and evaluation assets

Judgment is required to assess when impairment indicators exist.

For each property, management determines whether the facts and circumstances could indicate an impairment loss or reversal. The facts and circumstances it considers include, but are not limited to, the following:

(a) The period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
(b) Substantive expenditures on further exploration for and evaluation of mineral resources in the specific area are neither budgeted nor planned;
(c) Exploration for and evaluation of oil resources in the specific area have not led to the discovery of commercially viable quantities of oil resources, and the Company has decided to discontinue such activities in the specific area;
(d) Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Management must make assumptions related to future events and circumstances. These assumptions are based on the Company's exploration and evaluation program, which specifically considers whether the results of exploration work justify additional investments, whether the Company's interests in oil and gas rights have been confirmed, whether the Company is able to obtain the necessary financing to complete future development and whether future profitable production or the proceeds from disposal of the properties will be for an amount greater than their carrying amount.

Management has determined that there is no indication of impairment or reversal of impairment [2013 – Dalhousie property and exploration expenses that resulted in write-downs of $34,954 and $856,363, respectively, for a total loss of $891,317, recorded in the consolidated statements of comprehensive income (loss)].

4.2 Estimates

Deferred tax

Judgement is required to evaluate the likelihood of a future taxable benefit. A deferred tax asset is recognized to the extent that it is likely that taxable profits will be available against which the deductible temporary differences and the deferred unused tax credits and unused tax losses can be utilized. The Company considers it likely that such taxable profits will be available.

Provision for site restoration

Determining the provision for site restoration requires certain assumptions such as the estimated costs of abandoning and restoring sites and the estimated timing of future costs to be incurred. The amount recognized corresponds to management's best estimate, which is based on the expertise of the Company's geologists.

Measurement of share-based payments

The Company recognizes all of its share-based payments using the fair value method. The company uses the Black-Scholes valuation model to determine the fair value of share options and warrants issued to brokers. The main factor that affects fair value estimates of share options and these warrants is the expected volatility rate of the stock price. The Company currently estimates the expected volatility of its ordinary shares based on historical volatility over a period comparable to the expected life of the options and broker warrants.

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5. CASH AND CASH EQUIVALENTS

	2014 $	2013 $
Cash	**3,015,868**	158,310
Guaranteed investment certificates	**2,223,643**	4,829,331
	5,239,511	4,987,641
Less: Cash and cash equivalents held for exploration purposes[1]	**368,004**	904,737
Cash and cash equivalents	**4,871,507**	4,082,904

[1] Cash and cash equivalents held for exploration purposes represent available financing proceeds 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 December 31, 2014, cash and cash equivalents included guaranteed investment certificates with interest rates between 1.25% and 1.30% [1.04% and 1.30% as at December 31, 2013], maturing between April 24, 2015 and December 3, 2015 [May 8, 2014 and December 22, 2014 for certificates held as at December 31, 2013]. These instruments are redeemable at any time without penalty.

6. RECEIVABLES

	2014 $	2013 $
Partners	**179,336**	575,964
Commodity taxes	**415,430**	154,582
Tax credits receivable	**133,865**	3,848,569
Interest receivable	**17,146**	15,755
Other	**328,868**	38,409
	1,074,645	4,633,279

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

All the amounts have short-term maturities.

7. INTEREST IN AN ASSOCIATE

Anticosti property

Transaction details

On February 13, 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 partnership's Board of Directors is made up of a representative of each partner and an independent director.

The Board of Directors has set up an Operations Committee to supervise the partnership's work, as well as an advisory Technical Committee. Committees on health, safety and security, environment and social acceptability have also been created. These committees are made of an equal number of representatives from each partner.

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 – 35%; Pétrolia – 21.7%, St-Aubin E&P (Québec) Inc. – 21.7% and Corridor Resources Inc. (CDH-TO) – 21.7%. Pétrolia also entered into an agreement with Corridor Resources Inc. under which a maximum royalty credit of $1,200,000 and a cash amount of $800,000 were granted to Pétrolia as reimbursement for expenses entirely borne by Pétrolia in previous years. Under this agreement, Pétrolia undertakes to assume Corridor Resources Inc.'s share of royalties relating to the agreement entered into with Hydro-Québec on January 22, 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	$
Value of licences transferred to the partnership	**41,400,000**
Share of net loss	**(99,450)**
Contribution made to the partnership	**80,304**
Pétrolia's interest as stated in Anticosti Hydrocarbons L.P.'s financial statements as at December 31, 2014	**41,380,854**
Professional fees incurred to acquire the interest	**1,013,144**
Cash amount paid to acquire a total interest of 21.67%	**1,933,333**
	44,327,331
Adjustment to eliminate Pétrolia's share (21.67%) in the non-cash gain on transfer of ownership of certain licences	**(7,762,671)**
Value of interest	**36,564,660**
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**
	35,822,203
Adjustment to eliminate Pétrolia's share (21.67%) 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	**28,059,532**

Financial information as at December 31, 2014

Key financial information of the investment held by Pétrolia in Anticosti Hydrocarbons L.P. [21.67% of units] through Investissement PEA Inc. as at December 31, 2014 is as follows:

	Anticosti Hydrocarbons L.P. $
Current assets	**3,076,560**
Non-current assets	**111,512,377**
Current liability	**330,401**
Non-current liability	**220,481**
Partners' interest in Anticosti Hydrocarbons L.P.	**114,038,055**
Revenues	**—**
Net loss and comprehensive loss for the period from March 20, 2014 to December 31, 2014	**(458,926)**
Pétrolia's interest in Anticosti Hydrocarbons L.P. (21.67%)	**(99,450)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

8. INVESTMENTS

	2014 $	2013 $
Guaranteed investment certificate, 1.30%, matured in December 2014	—	930,000

9. 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, 2013	**75,434**	**577,484**	**300,494**	**197,552**	**322,881**	**186,107**	**1,659,952**
Additions	**—**	**8,444**	**20,371**	**33,814**	**—**	**—**	**62,629**
Disposals	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Balance as at December 31, 2014	**75,434**	**585,928**	**320,865**	**231,366**	**322,881**	**186,107**	**1,722,581**
Accumulated depreciation							
Balance as at December 31, 2013	**—**	**422,487**	**183,630**	**160,669**	**105,510**	**51,738**	**924,034**
Disposals	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Depreciation	**—**	**163,441**	**31,175**	**12,754**	**43,474**	**26,874**	**277,718**
Balance as at December 31, 2014	**—**	**585,928**	**214,805**	**173,423**	**148,984**	**78,612**	**1,201,752**
Net carrying amount as at December 31, 2014	**75,434**	**—**	**106,060**	**57,943**	**173,897**	**107,495**	**520,829**

	Land $	Leasehold improvements $	IT, office and field equipment $	Automotive equipment $	Reserves $	Field offices $	Total $
Gross carrying amount							
Balance as at September 30, 2012	75,434	577,484	294,444	244,487	248,409	186,107	1,626,365
Additions	—	—	6,050	—	74,472	—	80,522
Disposals	—	—	—	(46,935)	—	—	(46,935)
Balance as at December 31, 2013	75,434	577,484	300,494	197,552	322,881	186,107	1,659,952
Accumulated depreciation							
Balance as at September 30, 2012	—	224,947	139,817	182,832	37,489	9,305	594,390
Disposals	—	—	—	(42,359)	—	—	(42,359)
Depreciation	—	197,540	43,813	20,196	68,021	42,433	372,003
Balance as at December 31, 2013	—	422,487	183,630	160,669	105,510	51,738	924,034
Net carrying amount as at December 31, 2013	75,434	154,997	116,864	36,883	217,371	134,369	735,918

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

10. EXPLORATION AND EVALUATION ASSETS

Oil and gas properties

	December 31, 2013 $	Transfers $	Additions $	December 31, 2014 $
Québec				
Anticosti [1] *[note 7]*	348,919	**449,648**	**100,729**	**—**
Gastonguay	716,201	**—**	**25,902**	**742,103**
Gaspésia – Edgar – Marcel-Tremblay	448,968	**—**	**22,016**	**470,984**
Gaspé [1]	3,416,924	**—**	**12,585**	**3,429,509**
Matapédia	168,717	**—**	**1,113**	**169,830**
Total oil and gas properties	5,099,729	**449,648**	**162,345**	**4,812,426**

Exploration expenses

	December 31, 2013 $	Transfers $	Additions $	December 31, 2014 $
Québec				
Anticosti *[note 7]*	9,313,657	**9,554,893**	**309,862**	**68,626**
Gastonguay	75,987	**—**	**836**	**76,823**
Gaspésia – Edgar – Marcel-Tremblay	3,792,414	**—**	**3,004**	**3,795,418**
Gaspé	2,879,906	**—**	**140,726**	**3,020,632**
Bourque Project	21,676,895	**—**	**211,797**	**21,888,692**
Haldimand Project	16,208,203	**—**	**6,763,234**	**22,971,437**
Tar Point Project No. 1	5,193,540	**—**	**19,719**	**5,213,259**
Matapédia	1,164,001	**—**	**41,257**	**1,205,258**
	60,304,603	**9,554,893**	**7,490,435**	**58,240,145**

	December 31, 2013 $	Transfers $	Additions $	December 31, 2014 $
Deductions				
Exploration subsidies and partner contributions:				
Anticosti *[note 7]*	3,878,682	**4,426,744**	**553,604**	**5,542**
Gastonguay	19,009	**—**	**11**	**19,020**
Gaspésia – Edgar – Marcel-Tremblay	428,663	**—**	**45**	**428,708**
Gaspé	693,961	**—**	**10,498**	**704,459**
Bourque Project	8,817,971	**—**	**(4,641)**	**8,813,330**
Haldimand Project	7,880,368	**—**	**3,445,057**	**11,325,425**
Tar Point Project No. 1	1,051,561	**—**	**124**	**1,051,685**
Matapédia	651,056	**—**	**7,768**	**658,824**
	23,421,271	**4,426,744**	**4,012,466**	**23,006,993**
Revenue from oil reserve evaluation:				
Gaspé				
Haldimand Project	295,814	**—**	**—**	**295,814**
Total exploration expenses	36,587,518	**5,128,149**	**3,477,969**	**34,937,338**

During the year ended December 31, 2014, the Company did not recognize any resource tax credits as a deduction from exploration expenses [2013 – $3,848,569].

Summary as at December 31, 2014

	December 31, 2013 $	Write-offs $	Additions $	December 31, 2014 $
Properties	5,099,729	**449,648**	**162,345**	**4,812,426**
Exploration expenses	36,587,518	**5,128,149**	**3,477,969**	**34,937,338**
Exploration and evaluation assets	41,687,247	**5,577,797**	**3,640,314**	**39,749,764**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Oil and gas properties

	September 30, 2012 $	Write-offs $	Additions $	December 31, 2013 $
Québec				
Anticosti [1] *[note 7]*	340,875	—	8,044	348,919
Gastonguay	690,300	—	25,901	716,201
Gaspésia – Edgar – Marcel-Tremblay	426,950	—	22,018	448,968
Gaspé [1]	3,290,457	—	126,467	3,416,924
Matapédia	—	—	168,717	168,717
New Brunswick				
Dalhousie	139,526	34,954	(104,572)	—
Total oil and gas properties	4,888,108	34,954	246,575	5,099,729

Exploration expenses

	September 30, 2012 $	Write-offs $	Additions $	December 31, 2013 $
Québec				
Anticosti *[note 7]*	7,466,997	—	1,846,660	9,313,657
Gastonguay	75,037	—	950	75,987
Gaspésia – Edgar – Marcel-Tremblay	3,770,234	—	22,180	3,792,414
Gaspé	2,662,493	—	217,413	2,879,906
Bourque Project	11,168,542	—	10,508,353	21,676,895
Haldimand Project	13,343,595	—	2,864,608	16,208,203
Tar Point Project No. 1	5,284,223	—	(90,683)	5,193,540
Matapédia	—	—	1,164,001	1,164,001
New Brunswick				
Dalhousie	861,716	863,285	1,569	—
	44,632,837	863,285	16,535,051	60,304,603

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

	September 30, 2012 $	**Write-offs** $	**Additions** $	**December 31, 2013** $
Deductions				
Exploration subsidies and partner contributions:				
Anticosti *[note 7]*	3,012,402	—	866,280	3,878,682
Gastonguay	18,909	—	100	19,009
Gaspésia – Edgar – Marcel-Tremblay	423,091	—	5,572	428,663
Gaspé	644,933	—	49,028	693,961
Bourque Project	5,684,276	—	3,133,695	8,817,971
Haldimand Project	5,699,488	—	2,180,880	7,880,368
Tar Point Project No. 1	1,089,615	—	(38,054)	1,051,561
Matapédia		—	651,056	651,056
Dalhousie	6,922	6,922	—	—
	16,579,636	6,922	6,848,557	23,421,271
Revenue from oil reserve evaluation:				
Gaspé				
Haldimand Project	246,212	—	49,602	295,814
Total exploration expenses	27,806,989	856,363	9,636,892	36,587,518

During the year ended December 31, 2013, the Company wrote off its Dalhousie property after deciding to terminate its exploration and evaluation operations on this property. The Company chose to focus its efforts on its other properties.

Summary as at December 31, 2013

	September 30, 2012 $	**Write-offs** $	**Additions** $	**December 31, 2013** $
Properties	4,888,108	34,954	246,575	5,099,729
Exploration expenses	27,806,989	856,363	9,636,892	36,587,518
Exploration and evaluation assets	32,695,097	891,317	9,883,467	41,687,247

[1] 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.

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Gaspé and Haldimand properties

As at December 31, 2014, Québénergie had complied with the initial agreement which consisted in investing an amount of $8,500,000 in exploration work. Exploration expenses incurred on the properties held in partnership with Québénergie are now equally borne.

Pétrolia and Québénergie have joint ownership of 13 licences including that for the Haldimand project.

Bourque Project

In May 2012, Pétrolia completed a private placement totalling $15,575,000, with most of the funds used for the drilling of two wells on the Bourque property. The Company is currently developing a work program for the purpose of identifying the production characteristics of the Forillon formation.

Matapédia property

On July 19, 2013, the Company signed a partnership agreement with Saint-Aubin Énergie S.A.S., a subsidiary of Maurel & Prom and MPI, and proceeded with the joint acquisition of equal shares of 13 licences in the Gaspé Peninsula.

11. TRADE AND OTHER PAYABLES

	2014	**2013**
	$	$
Trade payables and accrued liabilities	**4,737,479**	1,151,950
Salaries, vacation pay and director fees	**310,868**	351,077
Guarantee deposit	**232,500**	232,500
	5,280,847	1,735,527

12. BANK BORROWINGS

	2014 $	2013 $
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.	**33,299**	—
Bank loan, with an authorized amount of $2,998,932 bearing interest at Caisse centrale Desjardins' prime rate plus 1%. The bank loan is secured by a hypothec of $2,998,932 with a first charge on refundable resource tax credits and future tax credits as well as by an 80% suretyship from Investissement Québec. This loan was repaid during fiscal 2014.	**—**	2,998,932
	33,299	2,998,932
Less :		
Unamortized financing costs	**—**	(112,404)
	33,299	2,886,528
Current portion	**6,448**	—
	26,851	2,886,528

The minimum principal payments to be made over the next five years are as follows: 2015 – $6,448; 2016 – $6,608; 2017 – $6,776; 2018 – $6,946; and 2019 – $6,521.

13. 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 December 31, 2014, the future estimated total amount required to settle obligations related to site restoration, indexed at 3.5%, stood at $816,220 [2013 – $718,180]. The total future amount was discounted using the weighted average rate of 5.25%, according to a 15-year payment schedule. The total undiscounted amount of the estimated cash flows required to settle these obligations is $922,375 [2013 – $827,500].

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

	2014 [12 months] $	**2013** [15 months] $
Balance, beginning of period	**718,180**	385,938
Liabilities incurred	**73,777**	291,612
Accretion expense	**24,263**	40,630
Amount used	**—**	—
Balance, end of period	**816,220**	718,180

14. DEFERRED TAX

Significant components of tax expense

The significant components of the tax expense charged to net earnings and share capital are detailed as follows:

	2014 [12 months] $	**2013** [15 months] $
Deferred tax:		
Tax credit transferred to investors as part of flow-through financing	**(589,872)**	(366,087)
Origination and reversal of temporary differences	**7,605,087**	(762,317)
Total deferred tax recognized in net earnings	**7,015,215**	(1,128,404)
Share issuance costs	**114,639**	104,505
Total deferred tax recognized in share capital	**114,639**	104,505

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Reconciliation of tax expense

The relationship between the expected income tax expense calculated on the basis of the combined federal and provincial rate in Canada and the tax expense presented in net income (loss) is reconciled as follows:

	2014 [12 months] $	**2013** [15 months] $
Income (loss) before taxes	**24,596,987**	(6,653,813)
Income tax at combined statutory rate of 26.9% [2013 – 26.9%]	**6,616,584**	(1,789,876)
Adjustments for the following items:		
Remeasurement of deferred tax assets and liabilities	—	131,786
Impact of the exploration expenses renunciation	**818,744**	443,278
Share-based payments	**176,472**	453,270
Other non-deductible expenses	**18,073**	20,126
Share issuance costs	**(22,927)**	(20,901)
Tax credit transferred to investors as part of flow-through financing	**(589,872)**	(366,087)
Other	**(1,859)**	—
Deferred tax expense recognized in net income (loss)	**7,015,215**	(1,128,404)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Changes in deferred taxes recognized:

The change in deferred taxes, by type, is presented as follows:

	December 31, 2013 $	Recognized in equity $	Recognized in net income (loss) $	December 31, 2014 $
Deferred losses	(3,310,922)	—	(1,014,873)	(4,325,795)
Share issuance costs	(185,617)	(114,639)	92,232	(208,024)
Measurement differences on assets and liabilities	(97,772)	—	30,707	(67,065)
Total deferred tax assets	(3,594,311)	(114,639)	(891,934)	(4,600,884)
Interest in an associate	—	—	9,207,215	9,207,215
Measurement differences on exploration and evaluation assets	3,952,073	—	(710,194)	3,241,879
Total deferred tax liabilities	3,952,073	—	8,497,021	12,449,094
Net total of deferred tax liabilities	357,762	(114,639)	7,605,087	7,848,210

	September 30, 2012 $	Recognized in equity $	Recognized in net income (loss) $	December 31, 2013 $
Deferred losses	(2,039,893)	—	(1,271,029)	(3,310,922)
Share issuance costs	(179,670)	(104,505)	98,558	(185,617)
Measurement differences on assets and liabilities	(124,877)	—	27,105	(97,772)
Total deferred tax assets	(2,344,440)	(104,505)	(1,145,366)	(3,594,311)
Interest in an associate	—	—	—	—
Measurement differences on exploration and evaluation assets	3,569,024	—	383,049	3,952,073
Total deferred tax liabilities	3,569,024	—	383,049	3,952,073
Total net deferred tax liabilities	1,224,584	(104,505)	(762,317)	357,762

Tax losses

At December 31, 2014, the tax losses available to reduce deferred taxes for which tax benefits have been recognized amounted to approximately $16,386,103 and $15,696,467, respectively, at the federal and provincial levels [$12,619,876 and $11,915,467, respectively, as at December 31, 2013]. The Company will be able to use tax benefits resulting from deferred tax losses.

15. SHARE CAPITAL

Authorized

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	2014 [12 months]		2013 [15 months]	
	Number of shares $	**Amount** $	**Number of shares** $	**Amount** $
Issued				
Balance, beginning of period	70,652,372	54,546,758	66,585,750	51,378,040
Share issuance:				
Shares issued	6,949,323	5,064,526	3,606,622	2,974,107
Stock options exercised	15,000	7,500	460,000	478,600
Issuance costs		(426,158)		(388,494)
Deferred tax related to issuance costs		114,639		104,505
Balance, end of period	77,616,695	59,307,265	70,652,372	54,546,758

During the year ended December 31, 2014, the Company issued 4,000,000 common shares and 2,949,323 flow-through shares under private investments for proceeds of $5,064,526. Issuance costs of $426,158 were paid in cash and recognized as a reduction of the Company's share capital.

During the year ended December 31, 2013, the Company issued 1,428,572 common shares and 2,178,050 flow-through shares under private investments for proceeds of $2,974,107. Issuance costs of $388,494 were paid in cash and recognized as a reduction of the Company's share capital. The Company also issued 167,858 stock options to the agent.

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.

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

	2014 [12 months]		2013 [15 months]	
	Number of options	**Weighted average exercise price** $	**Number of options**	**Weighted average exercise price** $
Outstanding, beginning of period	**6,432,500**	**1.07**	3,706 000	1.16
Granted	**1,435,000**	**0.54**	3,670,000	0.95
Exercised	**(15,000)**	**0.50**	(460,000)	0.62
Forfeited	**(330,000)**	**1.10**	(483,500)	1.22
Outstanding, end of period	**7,522,500**	**0.87**	6,432,500	1.07
Exercisable	**5,840,000**	**1.04**	4,561,250	1.09

The following table provides summary information on the stock options issued and outstanding as at December 31, 2014:

Outstanding options				
Number of options	**Exercise price** $	**Remaining life** Years	**Expiry date**	**Number of exercisable options**
90,000	0.89	0.2	February 25, 2015	90,000
647,500	0.50	0.9	December 8, 2015	622,500
75,000	1.31	1.2	February 25, 2016	75,000
500,000	1.69	1.4	May 18, 2016	500,000
1,080,000	1.52	1.9	December 4, 2016	1,030,000
75,000	1.51	2.1	February 22, 2017	75,000
2,170,000	1.02	2.9	December 10, 2017	1,671,250
150,000	1.14	3.2	February 28, 2018	150,000
250,000	0.89	3.6	August 21, 2018	125,000
400,000	0.98	3.7	September 14, 2018	400,000
650,000	0.67	3.9	December 5, 2018	375,000
405,000	0.67	4.4	May 28, 2019	292,500
1,030,000	0.49	4.9	November 25, 2019	433,750
7,522,500	0.87	2.9		5,840,000

The following table provides summary information on the stock options issued and outstanding at December 31, 2013:

Outstanding options			
Number of options	**Exercise price**	**Remaining life**	**Expiry date**
	$	Years	
60,000	0.74	0.4	May 21, 2014
180,000	0.89	1.2	February 25, 2015
672,500	0.50	1.9	December 8, 2015
75,000	1.31	2.2	February 25, 2016
500,000	1.69	2.4	May 18, 2016
1,200,000	1.52	2.9	December 4, 2016
75,000	1.51	3.1	February 22, 2017
2,220,000	1.02	3.9	December 10, 2017
150,000	1.14	4.2	February 28, 2018
250,000	0.89	4.6	August 21, 2018
400,000	0.98	4.7	September 14, 2018
650,000	0.67	4.9	December 5, 2018
6,432,500	1.07	3.4	

The weighted fair value of stock options granted during 2014 was $0.33 per option at the grant date [$0.49 in 2013 for the stock options and broker warrants].

The fair value of stock options granted to directors, officers and key employees was determined using the Black-Scholes option pricing model and the following assumptions:

	2014 [12 months]	
	May 2014	**November 2014**
Exercise price	$0.67	$0.49
Risk-free interest rate	1.50%	1.38%
Average expected volatility	87%	80%
Expected life (years)	5	5
Expected dividend yield	Nil	Nil

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For the years ended December 31, 2014 and 2013

	2013 [15 months]					
	December 2012	**March 2013**	**August 2013**	**September 2013**	**September 2013**	**December 2013**
Exercise price	$1.02	$1.14	$0.89	$1.15	$0.98	$0.67
Risk-free interest rate	1.51%	1.18%	2.05%	0.98%	2.12%	1.83%
Average expected volatility	102%	102%	93%	8%	92%	87%
Expected life (years)	1-5	5	5	1	5	1-5
Expected dividend yield	Nil	Nil	Nil	Nil	Nil	Nil

The underlying expected volatility was determined by reference to historical data over a period comparable to the expected life of options.

Warrants

Outstanding warrants allow holders to subscribe to an equivalent number of common shares as follows:

	2014 [12 months]		**2013** [15 months]	
	Number of warrants	**Weighted average exercise price** $	**Number of warrants**	**Weighted average exercise price** $
Balance, beginning of period	**6,651,860**	**1.66**	5,788,734	1.76
Issued	—	—	863,126	0.98
Exercised	—	—	—	—
Expired	**(291,798)**	**1.37**	—	—
Balance, end of period	**6,360,062**	**1.68**	6,651,860	1.66

The number of outstanding warrants that can be exercised for an equivalent number of common shares is established as follows:

	2014 [12 months]		2013 [15 months]	
Expiry date	**Number of warrants**	**Exercise price** $	**Number of warrants**	**Exercise price** $
May 14, 2014	—	—	242,958	1.42
September 25, 2014	—	—	48,840	1.15
May 15, 2015	**5,545,776**	**1.78**	5,545,776	1.78
July 10, 2015	**100,000**	**0.70**	100,000	0.70
July 10, 2016	**714,286**	**1.00**	714,286	1.00
	6,360,062	**1.68**	6,651,860	1.66

The fair value of warrants issued to brokers during the year ended December 31, 2013 was determined using the Black-Sholes model and the following assumptions as it was not possible to reliably establish the fair value of services received given that the negotiations were not based on work to be performed.

	2013 [15 months]	
	December 2012	**July 2013**
Exercise price	$1.20	$0.70
Risk-free interest rate	1.00%	1.15%
Average expected volatility	6%	5%
Expected life (years)	1	2
Expected dividend yield	Nil	Nil

16. LEASES

	Minimum lease payments due		
	Less than 1 year $	**1 to 5 years** $	**Total** $
December 31, 2014	**312,894**	115,666	425,560
December 31, 2013	**307,444**	391,851	699,295

The Company leases its offices and a house under leases expiring in 2015 and 2016.

Lease payments recognized as expenses, before amortization of deferred lease inducements, during the fiscal year totalled $311,961 [2013 – $415,037], of which an amount of $159,656 [2013 – $198,194] was charged to exploration and evaluation assets. This amount represents minimum lease payments. A sublease payment of $21,432 [2013 – $15,048] was received and recognized under other revenues.

The Company's rental contracts do not contain any contingent rent clauses, restrictions on dividends, additional debt or further leasing. At expiry, the Company is entitled to renew its office lease for five years without an increase in base rent, and energy costs will be indexed annually according to the Consumer Price Index.

17. EMPLOYEE BENEFITS EXPENSE

Expenses recognized for employee benefits are broken down below:

	2014 [12 months] $	**2013** [15 months] $
Salaries and employee benefits	**2,607,916**	3,149,305
Share-based compensation	**656,029**	1,986,025
	3,263,945	5,135,330
Less: amounts capitalized in exploration and evaluation assets	**948,106**	1,685,065
Employee benefits expense	**2,315,839**	3,450,265

Share-based compensation is broken down as follows:

	2014 [12 months] $	**2013** [15 months] $
Consolidated statements of income (loss)	**498,207**	1,685,017
Exploration and evaluation assets	**157,822**	301,008
Issuance costs	—	5,724
Total	**656,029**	1,991,749

For the years ended December 31, 2014 and 2013

18. 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 fiscal year. In calculating diluted loss per share for the year ended December 31, 2013, 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 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.

	2014 [12 months]	**2013** [15 months]
Net income (loss)	**$17,581,772**	$(5,525,409)
Weighted average number of shares – basic	**74,070,119**	68,401,114
Dilutive effect of warrants and options	**190,906**	—
Weighted average number of diluted shares	**74,261,115**	68,401,114
Net earnings (loss) per share - basic	**$0.237**	$(0.081)
Net earnings (loss) per share - diluted	**$0.237**	$(0.081)

19. 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 CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

Transactions with key management personnel

Key management personnel compensation includes the following expenses:

	2014 [12 months]	2013 [15 months]
Short-term employee benefits:		
Salaries and employee benefits	**1,087,525**	1,053,907
Termination benefit	**—**	333,333
Director fees	**122,500**	134,716
Total short-term employee benefits	**1,210,025**	1,521,956
Fees	**391,750**	112,500
Share-based compensation	**428,976**	1,656,356
Total compensation	**2,030,751**	3,290,812

During the year ended December 31, 2014, key management personnel exercised nil options [2013- 460,000] granted under the stock option plan.

Related companies and other parties

Transactions were carried out:

	2014 [12 months] $	2013 [15 months] $
With two companies whose chief officer (holding a minority interest) also serves on Pétrolia's Board:		
Consolidated statements of financial position		
Exploration and evaluation assets	—	17,142
Comprehensive income (loss):		
Other expenses	—	11,514

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

	2014 [12 months] $	2013 [15 months] $
Comprehensive income (loss):		
Other expenses	**30,000**	10,000

An amount of $16,786 is due from general partner Anticosti Hydrocarbons L.P. as at December 31, 2014 [2013 – $11,959 is due from a company whose chief officer has a minority interest in and is also a director of Pétrolia].

As at December 31, 2014, the Company has a non-interest bearing advance payable to Anticosti Hydrocarbons L.P. in the amount of $258,819 [2013 – $0].

These transactions took place in the normal course of business and were measured at their exchange value, which is the consideration established and accepted by related parties.

20. CAPITAL MANAGEMENT

The Company's capital management objectives are to ensure the Company's ability to pursue its exploration activities. The Company's capital consists of share capital. Management regularly reviews its capital management policy on a going concern basis and believes that this is a reasonable approach considering the Company's size.

The Company's financial strategy is developed and adapted according to market conditions in order to maintain a flexible capital structure in compliance with the aforementioned objectives and to respond to the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company, as a junior exploration company, issues new shares.

There were no material changes to the Company's capital management policies during the year ended December 31, 2014.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

21. 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:

	December 31, 2014					
	Held to maturity $	**Fair value through profit or loss** $	**Loans and receivables** $	**Other financial liabilities** $	**Total carrying amount** $	**Total fair value** $
Financial asset						
Cash and cash equivalents	—	**4,871,507**	—	—	**4,871,507**	**4,871,507**
Financial liability						
Bank borrowings	—	—	—	**33,299**	**33,299**	**33,299**

	December 31, 2013					
	Held to maturity $	**Fair value through profit or loss** $	**Loans and receivables** $	**Other financial liabilities** $	**Total carrying amount** $	**Total fair value** $
Financial asset						
Cash and cash equivalents	—	4,082,904	—	—	4,082,904	4,082,904
Short-term investments	—	—	930,000	—	930,000	930,000
	—	4,082,904	930,000	—	5,012,904	5,012,904
Financial liability						
Bank borrowings	—	—	—	2,998,932	2,998,932	2,998,932

Risk management policy

The Company's financial assets and liabilities expose it to various risks. The following analysis provides an assessment of those risks as at the date of the consolidated statements of financial position, that is, December 31, 2014.

Credit risk

The financial instruments that give rise to potential credit risk exposure for the Company consist primarily of cash and cash equivalents, accounts receivable and investments. The Company's cash and cash equivalents are held with or are issued by high-credit quality financial institutions. Accounts receivable consist primarily of amounts due from partners. Therefore, management considers the risk of non-performance of these instruments to be remote.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due or can do so only at excessive cost. The Company finances its growth by issuing shares, selling interests in some of its oil assets and by obtaining short-term loans. One of management's primary financial goals is to maintain an optimal level of liquidity through the active management of its exploration activities.

The tables below show the maturities of financial liabilities:

	December 31, 2014				
	Current portion $	Due in 1 to 3 years $	Due in 4 to 5 years $	Due in more than 5 years $	Total $
Trade and other payables	**7,780,847**	**—**	**—**	**—**	**7,780,847**
Bank borrowings	**6,448**	**20,330**	**6,521**	**—**	**33,299**
	7,787,295	**20,330**	**6,521**	**—**	**7,814,146**

	December 31, 2013				
	Current portion $	Due in 1 to 3 years $	Due in 4 to 5 years $	Due in more than 5 years $	Total $
Trade and other payables	1,735,527	—	—	—	1,735,527
Bank borrowings	3,111,430	—	—	—	3,111,430
	4,846,957	—	—	—	4,846,957

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market conditions. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Company is exposed to one of those risks, namely interest rate risk.

Interest rate risk

The Company is exposed to interest rate risk on its fixed- and variable-rate financial instruments. Fixed-rate financial instruments expose the Company to fair value risk, whereas variable-rate instruments expose it to cash flow risk.

22. COMMITMENTS

Under the terms of exploration licences granted by the Ministère des Ressources naturelles et de la Faune du Québec, the Company is committed to pay fees in the amount of $2,359,102 by 2022. The minimum payments required in the next five years are as follows:

2015 $	**2016** $	**2017** $	**2018** $	**2019** $
132,062	172,014	172,014	514,011	514,011

The adoption of Bill 18 in Québec suspends some of these statutory work obligations for up to three years while at the same time extending the validity of all the licences for the same period. In June 2014, this period was extended until an act on hydrocarbons is tabled. Pétrolia may, however, still continue its activities despite the suspended obligation.

23. 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 year ended December 31, 2014, the Company received an amount of $2,506,924 [2013 – $2,552,610] following flow-through investments for which it renounced the tax deductions. This amount must be incurred by December 31, 2015. At December 31, 2014, the remaining eligible expenses to be incurred stood at $368,004 [2013 – $904,737].

Environment and letters of guarantee

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. Letters of guarantee in the amount of $930,000 as at December 31, 2013 issued in favour of the Ministère des Ressources naturelles, corresponding to the value of the guaranteed investment certificates [note 8] held by the Company, were replaced during the year ended December 31, 2014 by sureties in an equivalent amount to guarantee certain site closing costs.

For the years ended December 31, 2014 and 2013

24. SUPPLEMENTAL CASH FLOW INFORMATION

Items not affecting cash and cash equivalents

	2014 [12 months] $	2013 [15 months] $
Receivables related to exploration and evaluation assets	**4,207,404**	(505,320)
Trade payables related to exploration and evaluation assets	**(2,735,336)**	(1,174,357)
Deposit on exploration costs	**—**	2,100,000
Share-based payments related to exploration and evaluation assets	**157,822**	301,008
Additions to property, plant and equipment financed by bank borrowings	**33,299**	—
Other information		
Interest paid	**112,498**	18,645
Interest received	**55,843**	184,179

Cash and cash equivalents comprise:

	2014 $	2013 $
Cash	**3,015,868**	158,310
Guaranteed investment certificates (redeemable at any time)	**2,223,643**	4,829,331
	5,239,511	4,987,641

25. SUBSEQUENT EVENTS

On March 16, 2015, the Company closed a private placement, issuing 2,728,500 flow-through shares at $0.80 per share for gross proceeds of $2,182,800. The Company will use these proceeds for exploration expenses on its properties located in Québec. In consideration for services rendered, the agents received fees amounting to 6% of the gross proceeds, that is, $130,968, paid in cash.

ADMINISTRATIVE AND OPERATING EXPENSES

Years ended December 31

Schedule A

	2014 [12 months] $	**2013** [15 months] $
Administrative expenses		
Share-based compensation	**498,207**	1,685,017
Salaries and employee benefits	**1,257,193**	1,765,248
Fees	**391,750**	112,500
Insurance	**55,522**	67,274
Maintenance and office supplies	**120,869**	102,568
Board of Directors fees	**180,507**	178,824
Shareholder reporting	**95,766**	102,177
Rent	**152,305**	216,123
Amortization of deferred lease inducements	**(27,400)**	(34,251)
Promotion and entertainment	**138,172**	545,300
Travel	**189,805**	262,698
Professional services	**493,826**	675,309
Capital tax	**—**	8,748
Telecommunications	**20,838**	24,715
Depreciation of property, plant and equipment	**101,312**	129,446
Other expenses	**28,302**	20,658
Total administrative expenses before re-invoicing of expenses	**3,696,974**	5,862,354
Re-invoicing of expenses	**(165,555)**	—
	3,531,419	5,862,354

Schedule B

	2014 [12 months] $	**2013** [15 months] $
Operating expenses		
Share-based compensation	**157,822**	301,008
Salaries and employee benefits	**1,350,723**	1,384,057
Insurance	**2,084**	2,262
Maintenance and office supplies	**42,269**	59,967
Travel	**51,974**	37,017
Training	**6,552**	23,707
Rent	**159,656**	198,914
Professional services	**18,650**	2,240
Telecommunications	**4,605**	7,058
Depreciation of property, plant and equipment	**176,406**	242,556
Other expenses	**6,043**	5,170
Total administrative expenses before re-invoicing of expenses and transfer to exploration and evaluation assets	**1,976,784**	2,263,956
Re-invoicing of expenses	**(560,439)**	—
Transfer to exploration and evaluation assets	**(1,416,345)**	(2,263,956)
	—	—

Schedule C

FINANCIAL INCOME AND EXPENSES

Years ended December 31

	2014	2013
	$	$
Interest income	**(55,843)**	(104,985)
Bank charges	**4,563**	6,517
Interest on bank indebtedness	**112,498**	26,607
Accretion expense	**24,263**	40,630
Amortization of financing costs	**112,404**	10,219
	197,885	(21,012)