CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016

OIL FROM HERE.
BY PEOPLE FROM HERE.
FOR HERE.

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 statements of financial position as at December 31, 2016 and 2015 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the 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.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pétrolia Inc. as at December 31, 2016 and 2015, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Québec City, Canada
March 28, 2017

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[in Canadian dollars]

As at December 31	2016	2015
	$	$
ASSETS		
Current		
Cash and cash equivalents *[note 5]*	**788,704**	3,321,697
Cash and cash equivalents held for exploration *[note 5]*	**5,703,494**	4,201,075
Receivables *[note 6]*	**843,913**	1,735,616
Prepaid expenses	**230,524**	94,676
Inventories	**330,960**	42,986
Total current assets	**7,897,595**	9,396,050
Non-current		
Restricted cash equivalents *[note 5]*	**630,000**	—
Security deposits *[note 14]*	**600,000**	—
Interests in associates *[note 7]*	**36,555,789**	36,583,849
Property, plant and equipment *[note 8]*	**554,018**	446,417
Exploration and evaluation assets *[note 9]*	**44,981,338**	43,419,895
Total non-current assets	**83,321,145**	80,450,161
	91,218,740	89,846,211
LIABILITIES AND EQUITY		
Current		
Trade and other payables *[note 10]*	**3,964,251**	3,963,782
Current portion of deferred lease inducements	**17,538**	11,418
Current portion of bank borrowings *[note 11]*	**6,776**	6,609
Partner advances for planned exploration work *[note 12]*	**1,993,378**	1,881,112
Provision for contingent liability *[note 24]*	**350,000**	—
Liability related to flow-through shares *[note 13]*	**77,893**	363,655
Total current liabilities	**6,409,836**	6,226,576
Non-current		
Partners' share in security deposits *[note 14]*	**293,820**	—
Deferred lease inducements	**197,706**	—
Bank borrowings *[note 11]*	**13,467**	20,243
Provision for site restoration *[note 14]*	**1,464,545**	1,373,060
Deferred tax liabilities *[note 15]*	**8,121,365**	7,879,371
Total non-current liabilities	**10,090,903**	9,272,674
Total liabilities	**16,500,739**	15,499,250
Equity		
Share capital *[note 16]*	**66,892,274**	64,829,868
Contributed surplus	**6,005,589**	5,756,445
Retained earnings	**1,820,138**	3,760,648
Total equity	**74,718,001**	74,346,961
	91,218,740	89,846,211

Lease, commitments, contingencies and subsequent events *[notes 17, 23, 24 and 26]*

See accompanying notes

On behalf of the Board,

(signed) Myron Tétreault

On behalf of the Board,

(signed) Charles Boulanger

PÉTROLIA

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

[in Canadian dollars]

Years ended December 31

	2016 $	2015 $
Revenues		
Project management	**102,283**	195,046
Other income	—	7,166
	102,283	202,212
Expenses		
Administrative expenses *[Schedule A]*	**2,086,649**	1,929,608
Operating expenses *[Schedule B]*	—	—
Financial income and expenses *[Schedule C]*	**6,757**	22,221
Share of associates *[note 7]*	**136,453**	143,995
	2,229,859	2,095,824
Loss before taxes	**(2,127,576)**	(1,893,612)
Deferred tax recovery *[note 15]*	**(187,066)**	(340,977)
Net loss and comprehensive loss	**(1,940,510)**	(1,552,635)
Basic net loss per share *[note 19]*	**(0.020)**	(0.019)
Diluted net loss per share *[note 19]*	**(0.020)**	(0.019)

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in Canadian dollars]

	Share capital *[note 16]* $	Contributed surplus $	Retained earnings $	Total equity $
Balance as at December 31, 2014	59,307,265	5,480,501	5,313,283	70,101,049
Shares issued	5,880,315	—	—	5,880,315
Share-based compensation	—	275,944	—	275,944
Issuance costs	(489,346)	—	—	(489,346)
Deferred taxes related to issuance costs *[note 15]*	131,634	—	—	131,634
Net loss and comprehensive loss	—	—	(1,552,635)	(1,552,635)
	5,522,603	275,944	(1,552,635)	4,245,912
Balance as at December 31, 2015	64,829,868	5,756,445	3,760,648	74,346,961
Shares issued	**2,215,588**	**—**	**—**	**2,215,588**
Share-based compensation	**—**	**249,144**	**—**	**249,144**
Issuance costs	**(209,551)**	**—**	**—**	**(209,551)**
Deferred taxes related to issuance costs *[note 15]*	**56,369**	**—**	**—**	**56,369**
Net loss and comprehensive loss	**—**	**—**	**(1,940,510)**	**(1,940,510)**
	2,062,406	**249,144**	**(1,940,510)**	**371,040**
Balance as at December 31, 2016	**66,892,274**	**6,005,589**	**1,820,138**	**74,718,001**

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in Canadian dollars]

Years ended December 31

	2016 $	2015 $
OPERATING ACTIVITIES		
Net loss	**(1,940,510)**	(1,552,635)
Items not affecting cash:		
Depreciation of property, plant and equipment	**23,818**	25,268
Deferred tax recovery	**(187,066)**	(340,977)
Share-based compensation	**172,079**	172,799
Amortization of deferred lease inducements	**(14,150)**	(27,400)
Loss (gain) on disposal of property, plant and equipment	**13,903**	(2,259)
Accretion expense	**28,321**	27,108
Share of net loss of associates	**136,453**	143,995
	(1,767,152)	(1,554,101)
Net change in non-cash operating items *[note 25]*		
Restricted cash equivalents	**(630,000)**	—
Receivables	**706,133**	(572,172)
Prepaid expenses	**(125,348)**	81,721
Inventories	**(287,974)**	814,593
Trade and other payables	**(463,496)**	(97,848)
	(800,685)	226,294
Cash flows related to operating activities	**(2,567,837)**	(1,327,807)
INVESTING ACTIVITIES		
Security deposits	**(600,000)**	—
Acquisitions of interests in associates	**—**	(43)
Additions to property, plant and equipment	**(6,078)**	(44,420)
Acquisitions of oil and gas properties, net of recovered amounts	**(133,674)**	(161,272)
Increase in exploration and evaluation costs, net of recovered amounts	**(8,086,655)**	(4,609,510)
Disposal of interests in the Bourque project *[note 9]*	**2,000,000**	—
Proceeds from disposal of property, plant and equipment	**1,625**	19,460
Contributions to associates	**(138,150)**	(133,384)
Cash flows related to investing activities	**(6,962,932)**	(4,929,169)
FINANCING ACTIVITIES		
Shares issued	**2,404,755**	6,682,800
Share issuance costs	**(294,581)**	(404,316)
Partner advances for the Bourque project	**6,396,630**	2,268,200
Repayment of bank borrowings	**(6,609)**	(6,447)
Cash flows related to financing activities	**8,500,195**	8,540,237
Net increase (decrease) in cash and cash equivalents	**(1,030,574)**	2,283,261
Cash and cash equivalents, beginning of year	**7,522,772**	5,239,511
Cash and cash equivalents, end of year *[note 25]*	**6,492,198**	7,522,772

See accompanying notes

1. INCORPORATION, NATURE OF OPERATIONS 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 East, 2nd floor, Suite 304, Québec City, Québec, G1K 3B7.

Approval date

These consolidated financial statements were approved by the Board of Directors and authorized for issue on March 28, 2017.

2. SIGNIFICANT 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 cash and cash equivalents 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 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, 2016:

Subsidiary	Interest (as a %)	Location	Description
Pétrolia Anticosti Inc.	100	Canada	Appointed operator of Anticosti Hydrocarbons L.P.
Investissement PEA Inc.	100	Canada	Portfolio company holding the investments in Anticosti Hydrocarbons L.P. and Anticosti Hydrocarbons General Partner Inc.

2.4 Revenue recognition

Purchases and sales of investments are recognized on the transaction date. Interest 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.

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

[a] 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-trading financial assets, or if so designated by management. The instruments in this category comprise cash, cash equivalents and restricted 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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The instruments in this category include accounts receivable excluding commodity taxes and tax credits receivable.

Financial instruments included in this category are initially recognized at fair value 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).

[c] Other financial liabilities

Financial instruments in this category are initially measured at fair value, net of transaction costs. Other finanical liabilities are subsequently measured at amortized cost. Any difference between the initial carrying amount of other financial liabilities and their 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 payable 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 financing using the effective interest method. This category includes trade and other payables, partners' share in security deposits and bank borrowings.

2.6 Basic and diluted net earnings (loss) per share

Basic net earnings (loss) per share is calculated by dividing net income (loss) 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 Inventories

Inventories consisting of drilling and fracturing equipment and drilling products are measured at the lower of cost, determined using the average cost method, and net realizable value, which represents replacement cost.

2.9 Property, plant and equipment

Property, plant and equipment are recorded at historical cost less any accumulated depreciation and 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	Lease term
IT, office and field equipment	Declining balance	20% and 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 administrative 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.

2.10 Exploration and evaluation assets

Exploration and evaluation assets include costs of acquiring oil and gas 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 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 and gas rights and the expenses related to exploration and evaluation activities are capitalized on the basis of each property and project 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. To date, the Company has not demonstrated any commercial viability of extracting oil and gas resources from its oil and gas properties.

2.11 Joint arrangements

A joint arrangement is defined as an arrangement in which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement.

The Company has entered into joint arrangements for the Bourque, Haldimand and Tar Point No. 1 projects and the Matapédia property as described in note 9. The Company is designated as operator under operating contracts entered into with its partners. Accordingly, the Company incurs exploration expenses relating to each project or property and recognizes them on a gross basis in the consolidated financial statements. The exploration expenses are re-invoiced by the Company to its partners based on their respective ownership percentages in the exploration licences and partnership agreements, and partner contributions are recorded as a reduction of exploration expenses.

The amounts received from partners for the Bourque project before the work is carried out are reported under *Partner advances for planned exploration work* in the consolidated statement of financial position and partner contributions are recorded as a reduction of exploration expenses for the Bourque project when exploration expenses are incurred.

When interests are disposed of, the cash considerations received 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).

2.12 Government assistance

Resource-related tax credits and subsidies for exploration expenses 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.

2.13. Interest in associates

The Company owns 21.7% of the units of Anticosti Hydrocarbons L.P. as well as 21.7% of the shares of Anticosti Hydrocarbons General Partner Inc., and a Company representative serves on the board of directors of these entities and participates in financial and operating policy decisions. Management has concluded that it exercises significant influence over these associates and has accounted for its interest using the equity method in its consolidated financial statements.

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

2.14 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, including the interests in associates, are tested for impairment individually while exploration and evaluation assets and property, plant and equipment are tested at the cash-generating unit level. Management assesses the impairment indicators of exploration and evaluation assets for each property or project that constitutes a 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 or natural gas 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*.

The interests in associates is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows from the interest that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognized. Objective evidence that the interests in associates are impaired includes observable data that comes to the attention of the Company about the following loss events:

(a) It becoming probable that the associates will enter bankruptcy or other financial reorganization;

(b) Observable data indicating that there is a measurable decrease in the estimated future cash flows from associates since the initial recognition of those interests, including national or local economic conditions that correlate with defaults on the assets of the associate such as declining crude oil or natural gas prices or adverse changes in industry conditions affecting the associates;

(c) Associates' significant financial difficulties;

(d) A contractual breach by associates.

In addition to the types of events in the paragraph above, objective evidence of impairment for the interests in the associates includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the associates operate, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

Regarding the exploration and evaluation assets, management determines for each asset whether the facts and circumstances could indicate an impairment loss. Such facts and circumstances 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 oil and gas resources in the specific area are neither budgeted nor planned;
(c) Exploration for and evaluation of oil and gas resources in the specific area have not led to the discovery of commercially viable quantities of oil and gas 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.

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.

2.15 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 estimated value of a future obligation associated with the provision for site restoration related to oil and gas properties is recognized as a liability in the period in which it is incurred, with a corresponding amount capitalized to exploration and evaluation assets 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 provision for site restoration and the underlying exploration and evaluation asset. 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 year. Actual costs incurred upon settlement of the liability are charged to the liability up to the amount of the liability recognized.

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 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 income tax assets and liabilities is recognized in net income (loss), except for the income tax related to items included in equity, in which case it is recognized in equity.

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.

Under tax legislation for flow-through investments, the Company is required to renounce deductions for exploration and evaluation expenses in favour of investors. When the Company incurs eligible expenses and renounces tax deductions, the renounced 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 paid to or recovered from 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.

For the years ended December 31, 2016 and 2015

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. The consideration received from the sale of a share or a half a warrant taking place during fiscal 2015 *[note 16]* and classified in equity was allocated between the share capital component and the warrant component using the residual method. The total amount of issuance proceeds was attributed to share capital since the proceeds were equal to the fair value of shares as at the date of the transaction.

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

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

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 apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. 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. CHANGES IN ACCOUNTING POLICIES

3.1 Standards adopted during the current year

As at January 1, 2016, the Company adopted the following standards:

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. Adoption of this amendment had 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*. Adoption of this amendment had no impact on the Company's consolidated financial statements.

IAS 1, *Presentation of Financial Statements*

In December 2014, the IASB issued an amendment to IAS 1, *Presentation of Financial Statements*. This amendment provides further clarification on disclosures and the use of judgment in determining what information to disclose. Adoption of this amendment had no impact on the Company's consolidated financial statements.

Annual Improvements (2012–2014)

In September 2014, the IASB issued Annual Improvements to IFRSs 2012-2014 Cycle, which affect four standards. Adoption of these improvements had no impact on the Company's consolidated financial statements.

3.2 Future changes in accounting policies

The standards issued by the IASB 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, financial instruments and certain non-monetary exchanges. This new standard sets out a single, five-step model for recognizing revenues. In July 2015, the IASB issued a decision to defer the effective date of this new standard from January 1, 2017 to January 1, 2018. The Company is currently assessing the impact of this standard on its consolidated financial statements, which impact will be limited so long as the Company is in the exploration stage.

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.

The Company is currently assessing the impact of this standard, which is to be applied retrospectively, and its changes on its consolidated financial statements.

IFRS 16, *Leases*

In January 2016, the IASB issued IFRS 16, *Leases*. This standard provides a single model under which most leases will be recognized in the statement of financial position.

Certain exemptions will apply for short-term leases and leases of low-value assets. IFRS 16 will be effective for fiscal years beginning on or after January 1, 2019. The Company is currently assessing the impact of this new 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 Judgments

Going concern assumption

When preparing the consolidated financial statements, Management is required to make an assessment of the Company's ability to continue as a going concern. When Management is aware, in making this assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, the Company shall disclose those uncertainties. In assessing whether the going concern assumption is appropriate, Management took into account all available information about the future, which includes at least, but is not limited to, a 12-month period from the statement of financial position date.

Management has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern for the next 12 months. However, significant judgment was involved in that assessment.

Since the Company is still at the exploration stage for all its oil and gas properties, including the investment in Hydrocarbon Anticosti L.P., it has yet to determine whether its oil and gas properties contain economically feasible reserves. Accordingly, the Company does not expect to generate significant revenues from its properties in fiscal 2017. The Company's ability to continue as a going concern for the next twelve months hinges on its ability to obtain the necessary financing to pursue its exploration and evaluation activities, including existing and expected funding commitments from third parties, to defer exploration spending to a level that allows the Company to keep its exploration property and licences and reduce its operational spending while maintaining its capacity to fulfil its obligations during fiscal 2017.

In addition, Management is seeking opportunities to conclude partnership agreements with third parties to obtain financing and to share the risk associated with the exploration of its oil and gas properties. As disclosed in note 9 to the consolidated financial statements, the Company has entered into an agreement with Ressources Québec inc. and TUGLIQ Energy Corp. to share exploration cost and risk related to the Bourque project. Management is also contemplating the issuance of common and flow-through shares in fiscal 2017. Under the securityholders agreement signed in March 2014 by the Company and Ressources Québec, Corridor Resources Inc. and Saint-Aubin E&P (Québec) Inc., the exploration costs to be incurred by Hydrocarbon Anticosti L.P. are entirely funded by third parties.

Impairment of interests in associates

The Company applies IAS 39 to assess whether there is evidence of impairment that could lead to the recognition of an impairment loss for its interest in associates relating to the Anticosti project (see note 7). This assessment requires significant judgment to determine whether the decline in fair value is significant or prolonged, triggering an impairment loss.

Management took numerous factors into account in assessing whether there were indicators of impairment, such as the partners' compliance with contractual commitments for the financing of exploration work, the results of exploration work to date, the exploration budgets adopted by the Board of Directors, and observable data such as the decline in oil prices that indicate measurable decreases in estimated future cash flows. In addition, Management also took into account the statements made by the Québec government during fiscal 2016 that it intended to fulfil its contractual obligation to Anticosti Hydrocarbons L.P. and would not to intervene in the process of granting the certificate of authorization for the drilling of wells with hydraulic fracturing. In this respect, the government authorities in charge of analyzing the authorization requests that are required for exploration operations to begin issued the required authorizations for exploration operations to be undertaken in spring 2017.

Lastly, Management further took into consideration the Québec government's support for the application by the Municipality of Port-Menier to be named a UNESCO World Heritage Site, as well as the Québec government's commitment to take the required protective measures for the area of the Island of Anticosti not covered by the national park in anticipation of such designation, which undermines the exploration and exploitation operations of oil and natural gas resources on the Island of Anticosti. Given this unfavourable environment, the Company's Management believes that an impairment indicator exists, consisting of the potential negotiated termination of the Anticosti project. However, in light of the rights and obligations of each of the parties as stipulated in the agreements pertaining to Anticosti Hydrocarbons L.P., the Company's Management is of the opinion that the recoverable amount would exceed the carrying amount of the interest in the associates. If the Company were to be unsuccessful in recovering the carrying amount of its interest in the associates, it would be required to recognize a material impairment charge in the consolidated statements of loss.

Impairment of exploration and evaluation assets

Judgment is required to assess when impairment indicators exist. Management determines for each asset, whether the facts and circumstances could indicate an impairment loss or reversal. This assessment requires significant Management judgment given the current background of declining crude oil and natural gas prices which reduces the Company's ability to obtain the necessary financing to complete future development and future profitable production or to dispose the properties for proceeds exceeding their carrying amount. Given the uncertainty related to the economic viability of its oil and gas properties, Management's analysis is based primarily on qualitative factors *[note 2.14]*. In particular, the Company considered fluctuations in oil prices, its financing capacity for completing its exploration projects, the exploration budgets adopted by the Company's Board of Directors and its partners, the Company's commitments to carry out exploration work under the issuance of flow-through shares in accordance with timelines, fluctuations in the Company's stock price and its capacity to obtain the required licences.

Management has determined that no impairment indicator requires impairment testing for the exploration and evaluation assets.

5. CASH AND CASH EQUIVALENTS

	2016 $	2015 $
Cash	**6,022,198**	3,850,530
Guaranteed investment certificates (redeemable on demand)	**1,100,000**	3,672,242
	7,122,198	7,522,772
Less: Cash and cash equivalents held for exploration purposes		
Flow-through shares[1]	**1,308,793**	2,041,067
Bourque project[2]	**4,394,701**	2,160,008
	5,703,494	4,201,075
Less: Restricted cash equivalents[3]	**630,000**	—
Cash and cash equivalents	**788,704**	3,321,697

[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 December 31, 2016 and 2015 from partner advances which, under the agreements, must be spent on exploration work related to the Bourque project.

[3] As at December 31, 2016, a portion of the GIC was pledged as security for the performance bonds issued for total amount of $630,000 *[note 14]*.

As at December 31, 2016, the GIC bore interest at 1.1% [2015 – 1.2%] maturing on January 25, 2017 [2015 – March 3, 2016]. This instrument is redeemable at any time without penalty.

For the years ended December 31, 2016 and 2015

6. RECEIVABLES

	2016 $	2015 $
Partner	**120,358**	145,312
Associate *[note 20]*	**475**	944,309
Commodity taxes	**661,382**	156,562
Tax credits receivable	**—**	160,616
Interest receivable	**2,188**	3,622
Other	**59,510**	325,195
	843,913	1,735,616

7. INTERESTS IN ASSOCIATES

On March 31, 2014, the Company completed a transaction that resulted in a partnership, Anticosti Hydrocarbons L.P., which owns the licences previously held by Pétrolia Inc. and Corridor Resources Inc. and a 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%

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, the 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, Investissement PEA and Ressources Québec paid $1.9 million and $13.3 million, respectively, 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%.

	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 year ended December 31, 2016	**(92,454)**	**(43,999)**	**(136,453)**
Contributions for the year ended December 31, 2016	**78,690**	**29,703**	**108,393**
Value of the interest as at December 31, 2016	**36,570,042**	**(14,253)**	**36,555,789**

For the years ended December 31, 2016 and 2015

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:

	2016 **$**	**2015** **$**
Current assets	**1,208,260**	2,435,899
Non-current assets	**127,211,657**	122,770,776
Current liabilities	**474,325**	1,286,069
Non-current liabilities	**51,449**	22,308
Partners' equity	**127,894,143**	123,898,298
Revenues	**—**	—
Net loss and comprehensive loss	**(629,783)**	(664,590)
Share of Pétrolia [21.7%]	**(136,453)**	(143,995)

Partner cash contributions as of the creation of Anticosti Hydrocarbons L.P. and Anticosti Hydrocarbons General Partner Inc. are detailed as follows:

	2016 **$**	**2015** **$**
Ressources Québec inc.	**16,448,565**	13,935,769
Saint-Aubin E&P (Québec) Inc.	**12,495,147**	10,599,101
Corridor Resources Inc.[1]	**351,865**	243,472
Investissement PEA inc.[1]	**351,865**	243,472
	29,647,442	25,021,814

[1] Investissement PEA inc. and Corridor Resources Inc. defray a portion of the associates' administrative costs equal to their respective interests [21.7%].

Reconciliation

The following table reconciles the Company's share of partners' equity in associates appearing in the statement of changes in partners' equity of Anticosti Hydrocarbons L.P. and Anticosti Hydrocarbons General Partner Inc. to its interests in associates:

	2016 $	2015 $
Partners' equity in associates	**127,894,143**	123,898,298
Less: Other partners' share in partners' equity of associates	**(86,522,160)**	(82,498,255)
Company's share in partners' equity of associates[1]	**41,371,983**	41,400,043
Acquisition-date adjustments		
Professional fees incurred to acquire the interest	**1,013,144**	1,013,144
Amount paid directly to a partner of associates	**1,933,333**	1,933,333
Elimination of the Company's share in the non-cash gain on transfer of ownership of certain licences	**(7,762,671)**	(7,762,671)
Interests in associates	**36,555,789**	36,583,849

[1] The share of each of the partners in the equity of the associates is determined using the fair values of the assets initially transferred, plus contributions, less the share of operating losses. While the operating losses of associates are allocated to each of the partners according to the percentage of their respective interests, this is not the case for contributions, as only Ressources Québec inc. and Saint-Aubin E&P (Québec) inc. are to finance the exploration work up to a maximum of $100 million. That is why the Company's share in partners' equity of associates, as shown in the financial statements of Anticosti Hydrocarbons L.P. and Anticosti Hydrocarbons General Partner Inc., is not equal to 21.7% of partners' equity in associates.

PÉTROLIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

8. 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**	**5,186**	**—**	**—**	**—**	**230,186**
Disposals	**—**	**(343,049)**	**—**	**(34,222)**	**—**	**—**	**(377,271)**
Balance as at December 31, 2016	**75,434**	**225,000**	**319,712**	**52,156**	**322,881**	**186,107**	**1,181,290**
Accumulated depreciation							
Balance as at December 31, 2015	**—**	**304,684**	**234,863**	**58,537**	**183,763**	**100,111**	**881,958**
Disposals	**—**	**(313,203)**	**—**	**(32,402)**	**—**	**—**	**(345,605)**
Depreciation	**—**	**17,893**	**19,715**	**8,289**	**27,823**	**17,199**	**90,919**
Balance as at December 31, 2016	**—**	**9,374**	**254,578**	**34,424**	**211,586**	**117,310**	**627,272**
Net carrying amount as at December 31, 2016	**75,434**	**215,626**	**65,134**	**17,732**	**111,295**	**68,797**	**554,018**

	Land $	Leasehold improvements $	IT, office and field equipment $	Automotive equipment $	Reserves $	Field offices $	Total $
Gross carrying amount							
Balance as at December 31, 2014	75,434	585,928	320,865	231,366	322,881	186,107	1,722,581
Additions	—	43,812	1,500	—	—	—	45,312
Disposals	—	(286,691)	(7,839)	(144,988)	—	—	(439,518)
Balance as at December 31, 2015	75,434	343,049	314,526	86,378	322,881	186,107	1,328,375
Accumulated depreciation							
Balance as at December 31, 2014	—	585,928	214,805	173,423	148,984	78,612	1,201,752
Disposals	—	(286,691)	(4,616)	(128,822)	—	—	(420,129)
Depreciation	—	5,447	24,674	13,936	34,779	21,499	100,335
Balance as at December 31, 2015	—	304,684	234,863	58,537	183,763	100,111	881,958
Net carrying amount as at December 31, 2015	75,434	38,365	79,663	27,841	139,118	85,996	446,417

PÉTROLIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

9. EXPLORATION AND EVALUATION ASSETS

Oil and gas properties

	December 31, 2015 $	Disposals $	Additions $	December 31, 2016 $
Québec				
Gastonguay	768,263	—	**26,420**	**794,683**
Gaspésia – Edgar – Marcel-Tremblay	493,222	—	**22,458**	**515,680**
Gaspé[1]	504,796	—	**29,068**	**533,864**
Bourque project[1]	240,692	**(112,682)**	**(4,654)**	**123,356**
Haldimand – Tar Point No. 1 projects[1]	2,759,564	—	**38,346**	**2,797,910**
Matapédia	207,161	—	**9,807**	**216,968**
Total oil and gas properties	4,973,698	**(112,682)**	**121,445**	**4,982,461**

Exploration expenses

	December 31, 2015 $	Disposals $	Additions $	December 31, 2016 $
Québec				
Anticosti	231,304	—	**29,254**	**260,558**
Gastonguay	76,900	—	—	**76,900**
Gaspésia – Edgar – Marcel-Tremblay	3,795,750	—	—	**3,795,750**
Gaspé	3,429,105	—	**195,398**	**3,624,503**
Bourque project	22,806,587	**(2,121,065)**	**8,960,382**	**29,645,904**
Haldimand project	28,511,918	—	**806,100**	**29,318,018**
Tar Point project No. 1	5,252,488	—	**28,722**	**5,281,210**
Matapédia	1,205,343	—	**1,101**	**1,206,444**
	65,309,395	**(2,121,065)**	**10,020,957**	**73,209,287**

For the years ended December 31, 2016 and 2015

	December 31, 2015 $	Disposals $	Additions $	December 31, 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	—	**5,978,315**	**15,113,442**
Haldimand project	14,526,382	—	**327,265**	**14,853,647**
Tar Point project No. 1	1,051,894	—	—	**1,051,894**
Matapédia	658,824	—	—	**658,824**
	26,536,975	—	**6,305,580**	**32,842,555**
Revenue from oil reserve evaluation:				
Gaspé				
Haldimand project	326,223	—	**41,632**	**367,855**
Total exploration expenses	38,446,197	**(2,121,065)**	**3,673,745**	**39,998,877**

Summary as at December 31, 2016

	December 31, 2015 $	Disposals $	Additions $	December 31, 2016 $
Oil and gas properties	4,973,698	**(112,682)**	**121,445**	**4,982,461**
Exploration expenses	38,446,197	**(2,121,065)**	**3,673,745**	**39,998,877**
Exploration and evaluation assets	43,419,895	**(2,233,747)**	**3,795,190**	**44,981,338**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

Oil and gas properties

	December 31, 2014 $	Disposals $	Additions $	December 31, 2015 $
Québec				
Gastonguay	742,103	—	26,160	768,263
Gaspésia – Edgar – Marcel-Tremblay	470,984	—	22,238	493,222
Gaspé[1]	476,013	—	28,783	504,796
Bourque project[1]	215,232	—	25,460	240,692
Haldimand – Tar Point No. 1 projects[1]	2,710,011	—	49,553	2,759,564
Matapédia	198,083	—	9,078	207,161
Total oil and gas properties	4,812,426	—	161,272	4,973,698

Exploration expenses

	December 31, 2014 $	Disposals $	Additions $	December 31, 2015 $
Québec				
Anticosti	68,626	—	162,678	231,304
Gastonguay	76,823	—	77	76,900
Gaspésia – Edgar – Marcel-Tremblay	3,795,418	—	332	3,795,750
Gaspé	3,020,632	—	408,473	3,429,105
Bourque project	21,888,692	—	917,895	22,806,587
Haldimand project	22,971,437	—	5,540,481	28,511,918
Tar Point project No. 1	5,213,259	—	39,229	5,252,488
Matapédia	1,205,258	—	85	1,205,343
	58,240,145	—	7,069,250	65,309,395

	December 31, 2014 $	Disposals $	Additions $	December 31, 2015 $
Deductions				
Exploration subsidies and partner contributions:				
Anticosti	5,542	—	305	5,847
Gastonguay	19,020	—	—	19,020
Gaspésia – Edgar – Marcel-Tremblay	428,708	—	32	428,740
Gaspé	704,459	—	6,682	711,141
Bourque project	8,813,330	—	321,797	9,135,127
Haldimand project	11,325,425	—	3,200,957	14,526,382
Tar Point project No. 1	1,051,685	—	209	1,051,894
Matapédia	658,824	—	—	658,824
	23,006,993	—	3,529,982	26,536,975
Revenue from oil reserve evaluation:				
Gaspé				
Haldimand project	295,814	—	30,409	326,223
Total exploration expenses	34,937,338	—	3,508,859	38,446,197

Summary as at December 31, 2015

	December 31, 2014 $	Disposals $	Additions $	December 31, 2015 $
Oil and gas properties	4,812,426	—	**161,272**	**4,973,698**
Exploration expenses	34,937,338	—	**3,508,859**	**38,446,197**
Exploration and evaluation assets	39,749,764	—	**3,670,131**	**43,419,895**

[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.

During the year, the Company reduced, by an amount of $27,446 [2015 – $163,267], the tax credits related to resources that had been recognized in previous years as a reduction of exploration expenses. During the year ended December 31, 2015, the Company recorded a $160,616 tax credit related to resources [2016 – $0] as a reduction of exploration expenses for the Haldimand property.

Gaspé property

Haldimand project

Exploration expenses incurred on the properties held in partnership with Québénergie are equally borne. Pétrolia and Québénergie have joint ownership of 13 licences for the Gaspé property including those for the Haldimand and Tar Point projects.

Bourque project

On November 6, 2015, the Company entered into an agreement with Ressources Québec inc. and TUGLIQ Energy Corp. to share the exploration costs and risks related to the Bourque project. For Phase I of the project, Ressources Québec inc. and TUGLIQ Energy Corp. have advanced to the Company amounts of $918,200 and $1,350,000, respectively, for a total amount of $2,268,200 to finance the exploration work, in exchange for interests amounting to 4.8% and 5.29%, respectively, in the four licences related to the Bourque property.

On July 15, 2016, the Company closed the second phase of financing for the Bourque project by Ressources Québec inc. for a total amount of $8,500,000. This investment consisted of a direct interest in the four licences related to the Bourque property, amounting to $2,000,000 in cash, and a $6,500,000 contribution following a call for funds for exploration work financing. With this investment, Ressources Québec inc. obtained 38.88% of the Company's interest in these licences and 1.32% of the interest of TUGLIQ Energy Corp. in these licences. As at December 31, 2016, upon completion of this second phase of financing, the interests in the four licences related to the Bourque property amounted to 51.03% for the Company, 45% for Ressources Québec inc. and 3.97% for TUGLIQ Energy Corp. In addition, during the fiscal year ended December 31, 2016, the Company received $6,396,630 from Ressources Québec inc. following calls for funds out of a total contribution of $6,500,000. The provision for site restoration was reduced by $233,747 with a view to retaining the Company's share only [51.03%] in the licences related to the Bourque property *[note 14]*.

Matapédia property

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

10. TRADE AND OTHER PAYABLES

	2016 $	2015 $
Trade payables and accrued liabilities	**3,461,589**	3,602,372
Salaries, fees, vacation pay and director fees	**326,487**	300,264
Partners	**67,211**	31,389
Advance from an associate *[note 20]*	**108,964**	—
Contributions to associates *[note 20]*	**—**	29,757
	3,964,251	3,963,782

11. BANK BORROWINGS

	2016 $	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.	**20,243**	26,852
Less current portion	**6,776**	6,609
	13,467	20,243

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

For the years ended December 31, 2016 and 2015

12. PARTNER ADVANCES FOR PLANNED EXPLORATION WORK

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

	2016 $	2015 $
Balance, beginning of year	**1,881,112**	—
Partner advances	**6,396,630**	2,268,200
Partners' share in security deposits *[note 14]*	**(293,820)**	—
Partner contributions for the property	**(12,229)**	—
Partner contributions to exploration work carried out	**(5,978,315)**	(387,088)
Balance, end of year	**1,993,378**	1,881,112

13. LIABILITY RELATED TO FLOW-THROUGH SHARES

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

	2016 $	2015 $
Balance, beginning of year	**363,655**	64,942
Issuance of flow-through shares *[note 16]*	**199,667**	802,485
Reduction of the liability based on the work carried out in respect of which the Company has renounced the tax deductions *[note 15]*	**(485,429)**	(503,772)
Balance, end of year	**77,893**	363,655

14. PROVISION FOR SITE RESTORATION

Management calculates the total provision for future site restoration based on the Company's net share, on the basis of the interest held in the properties being drilled, of the estimated costs of abandoning and restoring wells and facilities, and of the estimated timing of future costs to be incurred.

As at December 31, 2016, the total future estimated amount required to settle obligations related to site restoration, indexed at 2% [December 31, 2015 – 2%], stood at $1,464,545 [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 was $2,043,960 [December 31, 2015 – $1,955,959].

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

	2016	**2015**
	$	**$**
Balance, beginning of year	**1,373,060**	816,220
Liabilities incurred	**100,821**	—
Disposal of interests in the Bourque project *[note 9]*	**(233,747)**	—
Accretion expense	**28,321**	27,108
Change in accounting estimates	**196,090**	529,732
Balance, end of year	**1,464,545**	1,373,060

During the year, the Company reviewed the assumptions applied in determining the estimated costs to abandon sites that are used to calculate the present value of the estimated future amount required to settle site restoration obligations. This change in accounting estimates increased the provision for site restoration and exploration and evaluation assets by $196,090 [2015 – $529,732].

During fiscal 2016, security deposits amounting to $600,000 were paid by the Company under performance guarantees and 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. The performance guarantee must be kept in effect until the definitive closure of the wells. The partners advanced an amount of $293,820 to finance their share of the security deposits relating to the Bourque project *[note 12]* and that amount is reported in non-current liabilities as it is will be recovered by the partners once the security deposits are released by the Ministère des Ressources naturelles.

For the years ended December 31, 2016 and 2015

15. DEFERRED TAX

Significant components of tax expense

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

	2016 $	2015 $
Deferred tax:		
Tax credit transferred to investors as part of flow-through financing *[note 13]*	**(485,429)**	(503,772)
Origination and reversal of temporary differences	**298,363**	162,795
Total deferred tax (recovery) recognized in net loss	**(187,066)**	(340,977)
Issuance costs *[note 16]*	**56,369**	131,634
Total deferred tax recognized in share capital	**56,369**	131,634

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 loss is reconciled as follows:

	2016 $	2015 $
Loss before taxes	**(2,127,576)**	(1,893,612)
Income tax at combined statutory rate of 26.9% [2015 – 26.9%]	**(572,318)**	(509,382)
Adjustments for the following items:		
Impact of the exploration expenses renunciation	**843,861**	548,689
Share-based payments	**67,020**	74,229
Other non-deductible expenses	**13,591**	24,755
Impact of change in deferred tax rate	**(108,458)**	—
Prior year adjustments	**37,759**	—
Tax credit transferred to investors as part of flow-through financing	**(485,429)**	(503,772)
Other	**16,908**	24,504
Deferred tax expense recognized in net loss	**(187,066)**	(340,977)

For the years ended December 31, 2016 and 2015

Changes in deferred taxes recognized:

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

	December 31, 2015 $	Recognized in equity $	Recognized in net loss $	December 31, 2016 $
Deferred losses	(4,959,042)	—	(675,907)	(5,634,949)
Issuance costs	(261,277)	(56,369)	115,178	(202,468)
Measurement differences on assets and liabilities	(486,456)	—	54,954	(431,502)
Total deferred tax assets	(5,706,775)	(56,369)	(505,775)	(6,268,919)
Interest in an associate	9,243,596	—	(91,634)	9,151,962
Measurement differences on exploration and evaluation assets	4,342,550	—	895,772	5,238,322
Total deferred tax liabilities	13,586,146	—	804,138	14,390,284
Total net deferred tax liabilities	7,879,371	(56,369)	298,363	8,121,365

For the years ended December 31, 2016 and 2015

	December 31, 2014 $	Recognized in equity $	Recognized in net loss $	December 31, 2015 $
Deferred losses	(4,325,795)	—	(633,247)	(4,959,042)
Issuance costs	(208,024)	(131,634)	78,381	(261,277)
Measurement differences on assets and liabilities	(374,242)	—	(112,214)	(486,456)
Total deferred tax assets	(4,908,061)	(131,634)	(667,080)	(5,706,775)
Interest in an associate	9,207,215	—	36,381	9,243,596
Measurement differences on exploration and evaluation assets	3,549,056	—	793,494	4,342,550
Total deferred tax liabilities	12,756,271	—	829,875	13,586,146
Total net deferred tax liabilities	7,848,210	(131,634)	162,795	7,879,371

16. SHARE CAPITAL

Authorized

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

	2016		2015	
	Number of shares	Amount $	Number of shares	Amount $
Issued				
Balance, beginning of year	92,420,195	64,829,868	77,616,695	59,307,265
Share issuance:				
Shares issued	10,757,265	2,215,588	14,803,500	5,880,315
Issuance costs		(209,551)		(489,346)
Deferred tax related to issuance costs *[note 15]*		56,369		131,634
Balance, end of year	103,177,460	66,892,274	92,420,195	64,829,868

During the year ended December 31, 2016, the Company issued 10,707,265 flow-through shares under private placements for gross proceeds of $2,404,755. A liability related to flow-through shares in the amount of $199,667 was recognized in respect of these investments. Issuance costs of $209,551 were paid in cash and recognized as a reduction of the Company's share capital. In addition, the Company issued 50,000 common shares to a Board director for settlement of a $10,500 liability.

During the year ended December 31, 2015, the Company issued 8,250,000 common shares for gross proceeds of $2,970,000 and 6,553,500 flow-through shares for gross proceeds of $3,712,800 under private placements, for total gross proceeds of $6,682,800. A liability related to flow-through shares in the amount of $802,485 was recognized in respect of these investments. Issuance costs of $489,346, of which $404,316 was paid in cash and $85,030 was included under trade and other payables as at December 31, 2015, were recognized as a reduction of the Company's share capital.

Share-based payments

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

All share-based 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:

	2016		**2015**	
	Number of options	**Weighted average exercise price** $	**Number of options**	**Weighted average exercise price** $
Outstanding, beginning of year	**8,575,000**	**0.87**	7,522,500	0.97
Granted	**2,462,500**	**0.18**	1,950,000	0.36
Expired	**(2,157,500)**	**1.36**	(897,500)	0.65
Outstanding, end of year	**8,880,000**	**0.56**	8,575,000	0.87
Exercisable	**6,766,875**	**0.65**	6,867,500	0.97

For the years ended December 31, 2016 and 2015

The following table provides summary information on the stock options issued and outstanding as at December 31, 2016:

	Outstanding options		Exercisable options	
Range of exercise prices	**Number**	**Weighted average years to expiry**	**Number**	**Weighted average exercise price**
$0.17–$0.22	2,462,500	4.79	1,243,750	$0.18
$0.34–$0.49	2,662,500	3.58	1,805,625	$0.40
$0.55–$0.98	1,500,000	2.14	1,462,500	$0.74
$1.02–$1.51	2,255,000	0.93	2,255,000	$1.04
$0.17–$1.51	**8,880,000**	**3.00**	**6,766,875**	**$0.65**

The following table provides summary information on the stock options issued and outstanding as at December 31, 2015:

	Outstanding options		Exercisable options	
Range of exercise prices	**Number**	**Weighted average years to expiry**	**Number**	**Weighted average exercise price**
$0.34–$0.49	2,830,000	4.54	1,382,500	$0.41
$0.55–$0.98	1,820,000	3.06	1,560,000	$0.77
$1.02–$1.31	2,320,000	1.83	2,320,000	$1.04
$1.51–$1.69	1,605,000	0.77	1,605,000	$1.57
$0.34–$1.69	**8,575,000**	**2.81**	**6,867,500**	**$0.97**

The weighted fair value of stock options granted during 2015 was $0.10 per option at the grant date [2015 – $0.16 per option].

The fair value of stock options granted by the Company to directors, officers and key employees in 2016 and 2015 was determined using the Black-Scholes option pricing model and the following weighted average assumptions:

	2016	**2015**
Exercise price	$0.18	$0.36
Risk-free interest rate	0.78%	0.76%
Average expected volatility	77%	62%
Expected life (years)	3.75	3.75
Expected dividend yield	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:

	2016		**2015**	
	Number of warrants	**Weighted average exercise price** $	**Number of warrants**	**Weighted average exercise price** $
Balance, beginning of year	**4,839,286**	**0.61**	6,360,062	1.68
Issued	**—**	**—**	4,125,000	0.54
Expired	**(714,286)**	**1.00**	(5,645,776)	1.76
Balance, end of year	**4,125,000**	**0.54**	4,839,286	0.61

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

	2016		2015	
Expiry date	**Number of warrants**	**Exercise price** $	**Number of warrants**	**Exercise price** $
July 10, 2016	**—**	**—**	714,286	1.00
November 6, 2018	**4,125,000**	**0.54**	4,125,000	0.54
	4,125,000	**0.54**	4,839,286	0.61

17. LEASES

	Minimum lease payments due			
	Less than 1 year $	**1 to 5 years** $	**More than 5 years** $	**Total** $
December 31, 2016	28.440	145,558	110,403	283,401
December 31, 2015	111,691	432,154	410,963	954,808

The Company leases offices under leases expiring in 2026 [2015 – offices under leases expiring in 2016 and a house under a lease that expired in 2016].

During the fiscal year, lease payments recognized as expenses, before amortization of deferred lease inducements, totalled $100,920 [2015 – $279,207], of which an amount of $57,457 [2015 – $158,973] was charged to exploration and evaluation assets. This amount represents minimum lease payments.

The Company's rental contracts do not contain any contingent rent clauses, restrictions on dividends, additional debt or further leasing.

18. EMPLOYEE BENEFITS EXPENSE

Expenses recognized for employee benefits are broken down below:

	2016 $	2015 $
Salaries and employee benefits	**1,986,356**	2,289,592
Share-based compensation	**249,144**	275,944
	2,235,500	2,565,536
Less: Amounts capitalized in exploration and evaluation assets and re-invoiced	**1,510,819**	1,698,074
Employee benefits expense	**724,681**	867,462

Share-based compensation is broken down as follows:

	2016 $	2015 $
Consolidated statements of loss	**172,079**	172,799
Exploration and evaluation assets	**77,065**	103,145
Total	**249,144**	275,944

19. EARNINGS (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 years ended December 31, 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.

	2016	2015
Net loss	**$(1,940,510)**	$(1,552,635)
Weighted average number of shares – basic	**95,667,079**	81,625,024
Dilutive effect of warrants and options	**—**	—
Weighted average number of diluted shares	**95,667,079**	81,625,024
Basic net loss per share	**$(0.020)**	$(0.019)
Diluted net loss per share	**$(0.020)**	$(0.019)

20. 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:

	2016 $	2015 $
Short-term employee benefits:		
Salaries and employee benefits	**357,454**	735,243
Termination benefit	**150,000**	—
Director fees	**154,435**	138,566
Total short-term employee benefits	**661,889**	873,809
Fees	**214,572**	120,238
Share-based compensation	**142,996**	170,261
Total compensation	**1,019,457**	1,164,308

During the years ended December 31, 2016 and 2015, no options granted under the stock option plan were exercised by key management personnel of the Company.

Related companies and other parties

Transactions were carried out:

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

	2016	2015
	$	$
Comprehensive loss:		
Other expenses	**18,400**	17,000

With Anticosti Hydrocarbons L.P.:

	2016	2015
	$	$
Comprehensive loss:		
Project management	**35,180**	**112,893**

As at December 31, 2016, Anticosti Hydrocarbons L.P. advanced $458,964 to the Company [December 31, 2015 – nil] to finance the exploration operations of subsidiary Pétrolia Anticosti inc. for the first three months of fiscal 2017 which was offset by a $350,000 provision for contingent liability to be borne by Anticosti Hydrocarbons L.P.

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

As at December 31, 2016, an amount of $475 [December 31, 2015 – $944,309] was receivable from Anticosti Hydrocarbons L.P.

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.

21. 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 for all its oil and natural gas properties, issues new shares.

There were no material changes to the Company's capital management policies during the year ended December 31, 2016.

22. 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, 2016			
	Fair value through profit or loss $	**Loans and receivables** $	**Other financial liabilities** $	**Total carrying amount** $
Financial asset				
Cash and cash equivalents[1]	**6,492,198**	—	—	**6,492,198**
Receivables[2]	—	**182,531**	—	**182,531**
Restricted cash equivalents	**630,000**	—	—	**630,000**
	7,122,198	**182,531**	—	**7,304,729**
Financial liability				
Trade and other payables	—	—	**3,964,251**	**3,964,251**
Partners' share in security deposits	—	—	**293,820**	**293,820**
Bank borrowings	—	—	**20,243**	**20,243**
	—	—	**4,278,314**	**4,278,314**

	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.

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 statement of finanical position date of December 31, 2016.

Credit risk

The assets that give rise to potential credit risk exposure for the Company consist primarily of cash and cash equivalents, receivables and security deposits. Cash and cash equivalents are held with or are issued by established Canadian financial institutions, whereas the security deposits are held by the Québec government. Receivables primarily consist of amounts receivables in relation to commodity taxes. Management considers the risk of non-collection to be low.

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 operations by issuing shares, selling interests in some of its oil and natural gas 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.

For the years ended December 31, 2016 and 2015

The tables below show the maturities of financial liabilities:

	December 31, 2016				
	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	**3,964,251**	**—**	**—**	**—**	**3,964,251**
Bank borrowings	**7,200**	**13,800**	**—**	**—**	**21,000**
	3,971,451	**13,800**	**—**	**—**	**3,985,251**

	December 31, 2015				
	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	3,963,782	—	—	—	3,963,782
Bank borrowings	7,200	21,000	—	—	28,200
	3,970,982	21,000	—	—	3,991,982

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: interest rate risk, currency 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 fair value risk through interest rate risk on its fixed-rate financial instruments.

23. 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 $2,894,565 by 2025. The minimum payments required in the next five years are as follows:

2017	**2018**	**2019**	**2020**	**2021**
$	$	$	$	$
134,359	134,359	175,511	484,286	521,116

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. On December 9, 2016, Bill 106, *Act to implement the 2030 Energy Policy and to amend various legislative provisions*, was adopted. However, as of the date of these financial statements, Bill 106 and its underlying regulations have not yet come into force. As a result, even though the obligation pertaining to the performance of statutory work remains suspended, the Company may still continue its exploration operations.

24. 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. During the fiscal year ended December 31, 2016, the Company received $2,404,755 [December 30, 2015 – $3,712,800] in private placements following the issuance of flow-through shares for which it renounced a tax deduction of $199,667 [December 31, 2015 – $802,485]. As at December 31, 2016, the remaining eligible expenses to be incurred, more specifically no later than December 31, 2017, totalled $1,308,783 [December 31, 2015 – $2,041,067].

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.

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 commitments. 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 acknowledged 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.

Provision for contingent liability

The following table presents the reconciliation of the provision for contingent liability:

	2016 **$**	**2015** **$**
Balance, beginning of year	—	—
Provision made during the year	**350,000**	—
Balance, end of year	**350,000**	—

A $350,000 contingent liability was recognized for a dispute settlement with a service provider in connection with exploration work performed by the Company's subsidiary, Pétrolia Anticosti inc., on behalf of Anticosti Hydrocarbons L.P. The potential impact of this dispute on the Company's net loss is nil, given that the Company has the contractual right, under the operations contract, to re-invoice all the expenses incurred in connection with this dispute to Anticosti Hydrocarbons L.P. including professional fees since it was a contract entered into in the normal course of business by the Company as designated operator. As the settlement amount will be re-invoiced and born by Anticosti Hydrocarbons L.P., an amount of $350,000 was thus recognized against the advance from Anticosti Hydrocarbons L.P. *[note 10]* as at December 31, 2016.

25. SUPPLEMENTAL CASH FLOW INFORMATION

Reconciliation of the increase in exploration and evaluation costs, net of recovered amounts:

	2016 $	**2015** $
Additions to exploration costs	**10,020,957**	7,069,250
Non-cash acquisition		
Depreciation of property, plant and equipment	**(67,101)**	(75,067)
Share-based compensation	**(77,065)**	(103,145)
Amortization of deferred lease inducements	**7,024**	—
Loss on disposal of property, plant and equipment	**(16,138)**	(2,188)
Liability incurred and change in accounting estimate for provisions for site restoration	**(296,911)**	(529,732)
Recovered amounts		
Haldimand project	**(354,711)**	(3,145,545)
Oil reserve evaluation revenue	**(41,632)**	(30,409)
Resource tax credit	**27,446**	2,651
Change in non-cash working capital items	**(1,115,214)**	1,423,695
Increase in net exploration and evaluation costs, net of recovered amounts	**8,086,655**	4,609,510

Other information:

Additions to property, plant and equipment included in trade payables	—	892
Share issuance costs included in trade payables	—	85,030
Contributions to associates included in other payables	—	29,757
Leasehold improvements in exchange for deferred lease inducements	**225,000**	—
Interest paid	**594**	756
Interest received	**31,388**	50,705

Cash and cash equivalents comprise:

	2016	2015
	$	$
Cash	**6,022,198**	3,850,530
Guaranteed investment certificates, redeemable on demand	**1,100,000**	3,672,242
Less: Restricted cash equivalents	**(630,000)**	—
	6,492,198	7,522,772

26. SUBSEQUENT EVENT

On March 17, 2017, the Company confirmed the closing of a private placement and issued 5,222,223 flow-through shares at $0.18 per share for gross proceeds of $940,000. In consideration for the services provided in connection with this private placement, finder's fees in the amount of $66,400 were paid in cash and recognized as a reduction of the Company's share capital.

ADMINISTRATIVE AND OPERATING EXPENSES

Years ended December 31

Schedule A

	2016 $	2015 $
Administrative expenses		
Share-based compensation	**172,079**	172,799
Salaries and employee benefits	**887,238**	932,078
Fees	**204,397**	120,238
Insurance	**44,079**	39,755
Maintenance and office supplies	**73,690**	77,062
Board of Directors fees	**187,894**	193,517
Shareholder reporting	**62,149**	82,611
Rent	**43,463**	120,234
Amortization of deferred lease inducements	**(14,150)**	(27,400)
Promotion and entertainment	**11,289**	35,970
Travel	**69,723**	73,392
Professional services	**590,256**	329,378
Telecommunications	**21,833**	24,736
Depreciation of property, plant and equipment	**23,818**	25,268
Loss (gain) on disposal of property, plant and equipment	**13,903**	(2,259)
Reversal of a provision	**—**	(51,525)
Other expenses	**29,624**	21,169
Total administrative expenses before re-invoicing of expenses	**2,421,285**	2,167,023
Re-invoicing of expenses	**(334,636)**	(237,415)
	2,086,649	1,929,608

Schedule B

	2016 $	2015 $
Operating expenses		
Share-based compensation	**77,065**	103,145
Salaries and employee benefits	**1,099,118**	1,357,514
Fees	**10,175**	—
Insurance	**1,694**	1,794
Maintenance and office supplies	**2,573**	1,985
Travel	**2,094**	16,415
Training	**3,766**	12,744
Rent	**57,457**	158,973
Amortization of deferred lease inducements	**(7,024)**	—
Professional services	**15,812**	16,323
Telecommunications	**2,854**	4,093
Depreciation of property, plant and equipment	**67,101**	75,067
Loss on disposal of property, plant and equipment	**16,138**	2,188
Other expenses	**2,577**	3,834
Total operating expenses before re-invoicing of expenses and transfer to exploration and evaluation assets	**1,351,400**	1,754,075
Re-invoicing of expenses[1]	**(332,368)**	(579,758)
Transfer to exploration and evaluation assets	**(1,019,032)**	(1,174,317)
	—	—

[1] Re-invoiced expenses consist of salaries and employee benefits.

Schedule C

FINANCIAL INCOME AND EXPENSES

Years ended December 31

	2016	2015
	$	$
Interest income	**(29,954)**	(37,181)
Bank charges	**7,300**	3,346
Interest expense	**1,090**	28,948
Accretion expense	**28,321**	27,108
	6,757	22,221