PÉTROLIA

Leader en exploration pétrolière au Québec

Unaudited Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2014 and 2013

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIODS ENDED JUNE 30, 2014 AND 2013.

NOTICE OF DISCLOSURE OF NON-AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS ENDED JUNE 30, 2014 AND 2013

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

The accompanying consolidated financial statements of Pétrolia Inc. (the "Company") for the periods ended June 30, 2014 and 2013 have been prepared in accordance with International Financial Reporting Standards and are the responsibility of management.

The Company's independent auditors, Ernst & Young LLP, have not performed a review of these consolidated financial statements in accordance with the standards established by CPA Canada for a review of financial statements by an entity's independent auditors.

August 21, 2014

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in Canadian dollars)
(Unaudited)

	As at June 30, 2014 $	As at December 31, 2013 $
ASSETS		
Current		
Cash and cash equivalents *(note 4)*	3,419,724	4,082,904
Cash and cash equivalents held for exploration purposes *(note 4)*	343,225	904,737
Accounts receivable *(note 5)*	4,668,655	4,633,279
Inventory	465,079	-
Prepaid expenses	511,498	105,287
Short-term investment *(note 6)*	-	930,000
	9,408,181	10,656,207
Non-current		
Investments in companies *(note 7)*	43,283,487	-
Property, plant and equipment *(note 8)*	590,751	735,918
Exploration and evaluation assets *(note 9)*	36,406,615	41,687,247
	80,280,853	42,423,165
	89,689,034	53,079,372
LIABILITIES		
Current		
Trade and other payables *(note 10)*	2,359,668	1,735,527
Bank borrowings *(note 11)*	2,947,839	2,886,528
Deferred lease inducements	6,850	-
Liability related to flow-through shares	80,863	212,416
	5,395,220	4,834,471
Non-current		
Deferred lease inducements	45,668	66,218
Provision for site restoration *(note 12)*	730,011	718,180
Deferred income tax liabilities	9,895,498	357,762
	10,671,177	1,142,160
	16,066,397	5,976,631
EQUITY		
Share capital *(note 13)*	57,318,381	54,546,758
Contributed surplus	5,017,187	4,824,472
Retained earnings (deficit)	11,287,069	(12,268,489)
	73,622,637	47,102,741
	89,689,034	53,079,372

Contingencies *(note 17)*

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

On behalf of the Board

(signed) Myron Tétreault
Director

On behalf of the Board

(signed) Charles Boulanger

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in Canadian dollars)
(Unaudited)

For the periods ended	June 30, 2014 (3 months) $	June 30, 2013 (3 months) $	June 30, 2014 (6 months) $	June 30, 2013 (6 months) $
REVENUES				
Revenue	44,472	2,994	50,466	6,066
Project management	2,874	21,894	192,333	46,581
	50,346	24,888	242,799	52,647
EXPENSES				
Administrative expenses (Schedule A)	1,368,831	679,928	1,997,957	1,553,671
Operating expenses (Schedule B)	-	-	-	212,945
Financial income and expenses (Schedule C)	30,142	(8,912)	42,608	(37,641)
Gain on transfer of certain permits *(note 9)*	-	-	(34,809,059)	-
Share of investment (income) loss	49,845	-	49,845	-
	1,448,818	671,016	(32,718,649)	1,728,975
INCOME (LOSS) BEFORE TAXES	(1,398,472)	(646,128)	32,961,448	(1,676,328)
Deferred tax	(422,565)	(145,583)	9,405,890	(636,920)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	(975,907)	(500,545)	23,555,558	(1,039,408)
BASIC NET EARNINGS (LOSS) PER SHARE *(note 15)*	(0.013)	(0.007)	0.330	(0.015)
DILUTED NET EARNINGS (LOSS) PER SHARE *(note 15)*	(0.013)	(0.007)	0.329	(0.015)
WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES	71,325,289	67,245,942	71,325,289	67,245,942
WEIGHTED AVERAGE NUMBER OF DILUTED SHARES	71,325,289	67,245,942	71,698,587	67,245,942

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in Canadian dollars)
(Unaudited)

	Share capital	Contributed surplus	Retained earnings (deficit)	Total equity
	$	$	$	$
Unaudited balance as at December 31, 2012	**52,243,701**	**3,906,628**	**(7,884,184)**	**48,266,145**
Share issuance	19,270	-	-	19,270
Exercise of share options	399,999	(160,000)	-	239,999
Share-based payments	-	223,200	-	223,200
Issuance costs	(36,385)	-	-	(36,385)
Deferred tax related to issuance costs	-	-	-	-
Net loss and comprehensive loss	-	-	(1,046,425)	(1,046,425)
Unaudited balance as at June 30, 2013	**52,626,585**	**3,969,828**	**(8,930,609)**	**47,665,804**
Share issuance	2,074,480	-	-	2,074,480
Share-based payments	-	848,920	-	848,920
Broker warrants	-	5,724	-	5,724
Issuance costs	(258,812)	-	-	(258,812)
Deferred tax related to issuance costs	104,505	-	-	104,505
Net loss and comprehensive loss	-	-	(3,337,880)	(3,337,880)
Unaudited balance as at December 31, 2013	**54,546,758**	**4,824,472**	**(12,268,489)**	**47,102,741**
Share issuance	3,000,000	-	-	3,000,000
Exercise of share options	7,500	-	-	7,500
Share-based payments	-	192,715	-	192,715
Share issuance costs	(235,877)	-	-	(235,877)
Net income and comprehensive income	-	-	23,555,558	23,555,558
Unaudited balance as at June 30, 2014	**57,318,381**	**5,017,187**	**11,287,069**	**73,622,637**

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in Canadian dollars)
(Unaudited)

	For the six-month periods ended June 30, 2013	
	2014	**2013**
	$	**$**
OPERATING ACTIVITIES		
Net income (loss)	23,555,558	(1,039,408)
Items not affecting cash:		
Depreciation of property, plant and equipment	165,539	152,013
Amortization of financial expenses	61,311	-
Deferred tax	9,406,183	(388,087)
Accretion expense	12,131	-
Share-based payments	192,715	223,200
Gain on transfer of assets	-	3,576
Amortization of deferred lease inducements	(13,700)	(13,700)
Non-cash gain on transfer of ownership of certain licences *(note 9)*	(34,858,905)	-
	(1,479,168)	(1,062,406)
Net change in non-cash working capital items:		
Accounts receivable	240,527	1,119,845
Prepaid expenses	(406,211)	34,171
Inventories	(465,079)	-
Trade and other payables	370,948	(251,616)
	(259,815)	902,400
FINANCING ACTIVITIES		
Share issuance	3,007,500	259,269
Share issuance costs	(235,877)	(36,385)
Increase in bank borrowing		2,179,380
Disposal of investment	930,000	-
	3,701,623	2,402,264
INVESTING ACTIVITIES		
Acquisition of oil and gas properties	(106,881)	(1,075)
Additions to property, plant and equipment	(20,370)	-
Interest equalization payment made to a partner *(note 9)*	(1,933,333)	(3,576)
Deposit on exploration costs	-	2,100,000
Increase in deferred exploration costs, net of deductions	(1,126,748)	(9,546,676)
	(3,187,332)	(7,451,327)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,224,692)	(5,209,069)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,987,641	6,414,870
CASH AND CASH EQUIVALENTS, END OF PERIOD *(note 3)*	3,762,949	1,205,801
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash	318,618	751,470
Guaranteed investment certificates (redeemable at any time)	3,444,331	454,331
	3,762,949	1,205,801

1. INCORPORATION, GOING CONCERN AND CONDENSED INTERIM CONSOLIDATED INFORMATION

Incorporation and nature of business

The Company, incorporated under Part 1A of the Quebec *Companies Act* and governed by the provisions of the Quebec *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. The Company's head office is located at 305 Charest Blvd. E., 10th Floor, Quebec City, Quebec G1K 3H3.

Going concern

The Company has not yet determined whether its oil and gas properties and exploration costs include economically viable reserves. Recouping oil and gas property and exploration costs hinges on the Company's ability to economically operate its reserves and to obtain financing to continue property exploration, evaluation, property development, construction and begin commercial production or to generate proceeds from the disposal of properties.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events and conditions that cast significant doubt upon the Company's ability to continue as a going concern and, accordingly, the appropriateness of the use of IFRS applicable to a going concern, as described in the following paragraph. These financial statements do not reflect the adjustments to the carrying amounts of assets, liabilities and expenses and to classifications in the statement of financial position that would be necessary should the going concern assumption not be appropriate. These adjustments could be material.

The Company recorded a comprehensive loss of ($975,907) for the period ended June 30, 2014, and had retained earnings of $11,287,069 at June 30, 2014. In addition to ongoing working capital requirements, the Company must secure sufficient funding to meet its obligations and existing commitments for exploration and evaluation programs and pay general and administrative expenses. As at June 30, 2014, the Company had positive working capital of $4,012,961, including cash and cash equivalents of $3,419,724. Management considers that these funds will not be sufficient to meet the Company's obligations and expenses projected up to December 31, 2014. Any shortfall could be met in a number of ways in the future, including but not limited to, the issuance of new debt or equity instruments, additional cost-cutting measures and/or the introduction of new partners, on which the Company is presently working. If management is unable to secure new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than the amounts reflected in these financial statements.

CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

The financial information as at June 30, 2014 and for the six-month periods ended June 30, 2014 and 2013 is unaudited. However, it is management's view that all adjustments required to present fairly the results for these periods have been included. The adjustments made were of a normal recurring nature. The interim consolidated operating results do not necessarily reflect the operating results anticipated for the full fiscal year.

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

These condensed interim consolidated financial statements were prepared in accordance with IAS 34, *Interim Financial Reporting*, published by the International Accounting Standards Board ("IASB") and set out in the CPA Canada Handbook. The accounting policies applied in these condensed interim consolidated financial statements are the same as those in the most recent annual financial statements, except for the changes in accounting policies detailed below. The condensed interim consolidated financial statements should be read in conjunction with the audited annual financial statements for the fiscal year ended December 31, 2013, including the notes thereto.

All amounts are expressed in Canadian dollars.

3. CHANGES IN ACCOUNTING POLICIES

On January 1, 2014, the Company retrospectively adopted IFRIC 21, *Levies*, which clarifies the timing of accounting for a liability for outflow of resources that is imposed by governments in accordance with legislation, based on the activity that triggers the payment. The adoption of this interpretation did not have a material impact on the consolidated financial statements.

Basis of consolidation

These consolidated financial statements comprise the accounts of the Company and the subsidiaries under its control. The Company controls an entity when it has power to direct the relevant activities, and when it has the ability to affect those returns through its power over the entity. 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.

The consolidated financial statements include the accounts of the following subsidiaries:

Subsidiary	Voting rights	Location
Pétrolia Anticosti Inc.	100%	Canada
Investissement PEA Inc.	100%	Canada

Investment agreement

Through Investissement PEA Inc., a wholly owned subsidiary, Pétrolia holds a 21.7% interest in the units and voting rights of Anticosti Hydrocarbons L.P. The investment is accounted for using the equity method.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following items:

	As at June 30, 2014	**As at December 31, 2013**
	$	**$**
Cash (bank overdraft)	318,618	158,310
Guaranteed investment certificates	3,444,331	4,829,331
	3,762,949	4,987,641
Less: Cash and cash equivalents held for exploration purposes[1]	343,225	904,737
Cash and cash equivalents	3,419,724	4,082,904

(1) Cash and cash equivalents held for exploration purposes represents available financing proceeds related to flow-through shares. According to restrictions imposed under financing arrangements, the Company must allocate these funds to the exploration of oil and gas properties.

As at June 30, 2014, cash and cash equivalents included guaranteed investment certificates carrying interest at 1.30% (between 1.04% and 1.30% as at December 31, 2013) maturing on December 22, 2014. These instruments are redeemable at any time without penalty.

5. ACCOUNTS RECEIVABLE

	As at June 30, 2014 $	As at December 31, 2013 $
Partners	357,407	575,964
Commodity taxes	337,207	154,582
Tax credits receivable	3,592,833	3,848,569
Interest receivable	24,424	15,755
Other	359,784	38,409
	4,668,655	4,633,279

As at June 30, 2014, the Company recorded a resource tax credit of $3,592,833 ($3,848,569 as at December 31, 2013).

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

All the amounts have short-term maturities.

6. INVESTMENTS

	As at June 30, 2014 $	As at December 31, 2013 $
Guaranteed investment certificate, 1.25%, redeemable at any time and maturing in December 2014	-	930,000
	-	930,000
Short-term investment	-	930,000
	-	-

7. INVESTMENT IN A COMPANY

Through a wholly owned subsidiary, Pétrolia holds a 21.7% interest in the units of Anticosti Hydrocarbons L.P. Key unaudited financial information is detailed as follows:

	Anticosti Hydrocarbons L.P.
Current assets	$10,079,957
Non-current assets	$1,183,996
Current liabilities	-
Non-current liabilities	-
Revenues	-
Net income	$(35,116)

8. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements $	IT, office and field equipment $	Automotive equipment $	Reserves $	Field offices $	Land $	Total $
Gross carrying amount							
Balance as at December 31, 2013	577,484	300,494	197,552	322,881	186,107	75,434	1,659,952
Additions	-	20,370	-	-	-	-	20,370
Disposals	-	-	-	-	-	-	-
Balance as at June 30, 2014	577,484	320,864	197,552	322,881	186,107	75,434	1,680,322
Accumulated depreciation							
Balance as at December 31, 2013	422,487	183,630	160,669	105,510	51,738	-	924,034
Disposals	-	-	-	-	-	-	-
Depreciation	110,413	14,420	5,532	21,737	13,435	-	165,539
Balance as at June 30, 2014	532,900	198,050	166,201	127,247	65,173	-	1,089,571
Net carrying amount as at June 30, 2014	44,584	122,814	31,351	195,634	120,934	75,434	590,751

9. EXPLORATION AND EVALUATION ASSETS

Oil and gas properties

	December 31, 2013 $	**Disposals $**	**Additions $**	**June 30, 2014 $**
Québec				
Anticosti[1]	348,919	348,919	-	-
Gastonguay	716,201	-	25,902	742,103
Gaspésia – Edgar – Marcel-Tremblay	448,968	-	22,016	470,984
Gaspé[1]	3,416,924	41,766	-	3,375,158
Matapédia	168,717	-	-	168,717
Total oil and gas properties	5,099,729	390,685	47,918	4,756,962

Exploration expenses

	December 31, 2013 $	Disposals $	Additions $	June 30, 2014 $
Québec				
Anticosti	9,313,657	9,313,657	15,578	15,578
Gastonguay	75,987	-	368	76,355
Gaspésia – Edgar – Marcel-Tremblay	3,792,414	-	1,217	3,793,631
Gaspé	2,879,906	-	101,443	2,981,349
Bourque Project	21,676,895	-	105,234	21,782,129
Haldimand Project	16,208,203	-	357,019	16,565,222
Tar Point Project No. 1	5,193,540	-	16,370	5,209,910
Matapédia	1,164,001	-	40,463	1,204,464
	60,304,603	9,298,079	622,114	51,628,638
Less:				
Exploration subsidies and partner contributions:				
Anticosti	3,878,682	3,878,682	28	28
Gastonguay	19,009	-	11	19,020
Gaspésia – Edgar – Marcel-Tremblay	428,663	-	45	428,708
Gaspé	693,961	-	10,498	704,459
Bourque Project	8,817,971	4,640	-	8,813,331
Haldimand Project	7,880,368	-	126,748	8,007,116
Tar Point Project No. 1	1,051,561	-	124	1,051,685
Matapédia	651,056	-	7,768	658,824
	23,421,271	3,883,294	145,194	19,683,171
Revenue from oil reserve evaluation:				
Gaspé				
Haldimand Project	295,814	-	-	295,814
Total exploration expenses	36,587,518	5,414,785	476,920	31,649,653

Summary as at June 30, 2014	December 31, 2013 $	Disposals $	Additions $	June 30, 2014 $
Properties	5,099,729	390,685	47,918	4,756,962
Exploration expenses	36,587,518	5,414,785	476,920	31,649,653
Exploration and evaluation assets	41,687,247	5,757,552	476,920	36,406,615

(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.

Gaspé property

In May 2008, Pétrolia acquired a 100% interest in a 6,043 square kilometre (“sq km”) area of these properties (excluding the Haldimand property), subject to a royalty of 0.5% to 2.5% on future hydrocarbon production. In June 2010, the Company carried out an asset exchange, increasing its interest in all Gaspé licences to 100%, covering an area of 150 sq km, with the exception of a 9 sq km zone in which it holds a 64% interest (Haldimand property). On December 20, 2010, the Company signed definitive agreements for the sale of a 50% interest in the Haldimand discovery and in 13 licences in the areas surrounding this discovery to Québénergie Inc. (subsidiary of Investcan) for the amount of $15,190,000. Under the initial contract, Québénergie paid $6,690,000 in cash and undertook to reimburse Pétrolia an amount of $8,500,000 for exploration work to be carried out by Pétrolia. As at June 30, 2014, expenses of $2,357,012 must be incurred for exploration work in the coming periods to comply with the initial contract.

Haldimand Project

On December 20, 2011, Pétrolia and Québénergie paid a total amount of $3.1 million to acquire Junex's 36% interest in this deposit. The agreement releases Junex from the production penalties to which it was exposed for failing to participate in recent work on the properties. Following this transaction, Pétrolia and Québénergie own equal shares in the deposit and surrounding properties.

Bourque Project

In May 2012, Pétrolia completed a private placement totalling $15.75 million, with most of the funds used for the drilling of two wells on the Bourque property. The Company is currently developing a work program for the purpose of identifying the production characteristics of the Forillon formation.

Matapédia property

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

Anticosti property

On February 31, 2014, the Company entered into a transaction to create a partnership for owning and operating the licences previously held by Pétrolia and Corridor Resources. The partners' ownership interests are shown below:

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

The partnership's Board of Directors is made up of a representative of each partner and an independent director. Pétrolia's representative is Myron Tétreault.

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

Transaction details

The exploration licences were valued at $100 million for the purposes of the transaction. Ressources Québec and St-Aubin E&P 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 will invest $43.33 million in exchange for a 21.7% interest. To ensure equal interests for the three public corporations and a 35% interest for Ressources Québec, Anticosti Hydrocarbons L.P. made a payment of $15.2 million to Corridor Resources. Following these transactions, the parties' interests in the partnership are as follows: Ressources Québec – 35%; Pétrolia – 21.7%, St-Aubin E&P – 21.7% and Corridor Resources Inc. (CDH-TO) – 21.7%. Pétrolia also entered into an agreement with Corridor Resources under which a maximum royalty credit of $1.2 million and a cash amount of $800,000 were granted to Pétrolia as reimbursement for expenses entirely borne by Pétrolia in previous years. Under this agreement, Pétrolia undertakes to assume Corridor Resources' share of royalties relating to the agreement entered into with Hydro-Québec on January 22, 2008.

Value of licences transferred to the partnership	$41,400,000
Share of net income (loss)	$(49,846)
Cash amount paid to acquire a total interest of 21.67%	$1,933,333
Value of interest	$43,283,487

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

Value of licences transferred	$41,400,000
Less:	
Carrying amount of exploration and evaluation assets	$5,577,797
Professional fees	$1,013,143
Non-cash gain on the transfer of ownership of certain licences	$34,809,060

10. TRADE AND OTHER PAYABLES

	As at June 30, 2014 $	As at December 31, 2013 $
Trade payables and accrued liabilities	1,963,974	1,151,950
Salaries, vacation pay and director fees	163,194	351,077
Guarantee deposit	232,500	232,500
	2,359,668	1,735,527

11. BANK BORROWINGS

	As at June 30, 2014 $	As at December 31, 2013 $
Bank loan, with an authorized amount of $2,998,932 bearing interest at Caisse centrale Desjardins' prime rate plus 1%.The bank loan is secured by a hypothec of $2,998,932 with a first charge on refundable resource tax credits and future tax credits as well as by an 80% suretyship from Investissement Québec. The principal must be repaid no later than December 31, 2014.	2,998,932	2,998,932
Less:		
Financial expenses	(51,093)	(112,404)
	2,947,839	2,886,528

12. PROVISION FOR SITE RESTORATION

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

The total future amount was discounted using the weighted average rate of 5.25%, according to a payment schedule ranging from 1 to 30 years.

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

	As at June 30, 2014 $	As at December 31, 2013 $
Balance, beginning of period	718,180	385,938
Liabilities incurred	-	291,612
Accretion expense	12,131	40,630
Amount used	-	-
Balance, end of period	730,311	718,180
Current portion of liability	-	-
	730,311	718,180

13. SHARE CAPITAL

Authorized

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

Issued:	**For the six-month period ended June 30, 2014**		**For the year ended December 31, 2013**	
	Number of shares	Amount $	Number of shares	Amount $
Balance, beginning of period	70,652,372	54,546,758	66,585,750	51,378,040
Share issuance:				
Shares issued	4,000,000	3,000,000	3,606,622	2,974,107
Share options exercised	15,000	7,500	460,000	478,600
Deferred taxes	-	-	-	104,505
Issuance costs	-	(235,877)	-	(388,494)
Balance, end of period	74,667,372	57,318,381	70,652,372	54,546,758

Warrants

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

	For the six-month period ended June 30, 2014	
	Number of warrants	Weighted average exercise price $
Balance, beginning of period	6,651,860	1.66
Issued	-	-
Exercised	-	-
Expired	242,958	1.42
Balance, end of period	6,408,902	1.67

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

	As at June 30, 2014	
Expiry date	Number of warrants	Exercise price $
September 25, 2014	48,840	1.15
July 10, 2015	100,000	0.70
May 15, 2015	5,545,776	1.78
July 10, 2016	714,286	1.00
	6,408,902	1.67

14. EMPLOYEE COMPENSATION AND SHARE-BASED PAYMENTS

Share-based payments

The Company has 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 or discounted market price of the underlying share on the day prior to the grant of the option. All options must be exercised no later than five years after the date of the grant. The options granted to directors vest immediately and for other participants, over a period of three years.

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

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

	For the six-month period ended June 30, 2014		For the year ended June 30, 2013	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding, beginning of period	6,432,500	1.07	3,706,00(	1.16
Granted	405,000	0.67	2,370,00(	1.03
Exercised	(15,000)	0.50	(460,000)	0.62
Forfeited	(330,000)	1.10	-	-
Outstanding, end of period	6,492,500	1.05	5,616,00(	1.15
Exercisable	4,547,500	1.02	3,616,75(	1.07

The following table summarizes the information relating to share options as at June 30, 2014:

Outstanding options

Number of options	Exercise price	Remaining life	Expiry date
	$	years	
90,000	0.89	0.6	February 25, 2015
647,500	0.50	1.3	December 8, 2015
75,000	1.31	1.6	February 25, 2016
500,000	1.69	1.8	May 18, 2016
1,080,000	1.52	2.3	December 4, 2016
75,000	1.51	2.6	February 22, 2017
2,170,000	1.02	3.3	December 10, 2017
150,000	1.14	3.6	February 28, 2018
250,000	0.89	4.0	August 21, 2018
400,000	0.98	4.1	September 14, 2018
650,000	0.67	4.3	December 5, 2018
405,000	0.67	4.9	May 28, 2019

15. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share are calculated by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period. In calculating diluted earnings per share for the periods ended June 30, 2014 and June 30, 2013, potential common shares, such as certain options and warrants, were not included as they would have the effect of decreasing the loss per share, which would be antidilutive.

Both basic and diluted earnings per share have been calculated using net income (loss) and comprehensive income (loss) for the period as the numerator, that is, no adjustment to income (loss) was necessary.

	For the three-month period ended		**For the six-month period ended**	
	June 30, 2014	**June 30, 2013**	**June 30, 2014**	**June 30, 2013**
Net income (loss) and comprehensive income (loss) for the period	(975,907)	(500,545	23,555,558	(1,039,408)
Weighted average number of shares – basic	71,325,289	67,245,942	71,325,289	67,245,942
Dilutive effect of warrants and options	-	-	373,298	-
Weighted average number of shares – diluted	71,325,289	67,245,942	71,698,587	67,245,942
Net earnings (loss) per share – basic	$(0.013)	$(0.007)	$0.330	$(0.015)
Net earnings (loss) per share – diluted	$(0.013)	$(0.007)	$0.329	$(0.015)

16. RELATED PARTY TRANSACTIONS

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

Unless otherwise indicated, 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:

	For the six-month period ended	
	June 30, 2014	**June 30, 2013**
	$	**$**
Short-term employee benefits		
Salaries and employee benefits	787,428	299,083
Director fees	59,433	53,893
Total short-term employee benefits	846,861	352,976
Fees	207,750	-
Share-based compensation	148,842	-
Total compensation	1,203,453	352,976

During the 2014 reporting period, key management personnel exercised nil options (400,000 in 2013) granted under the stock option plan.

Related companies and other parties

Transactions were carried out:

	For the six-month period ended	
	June 30, 2014 $	**June 30, 2013 $**
With a company in which a director is a majority shareholder:		
Comprehensive income		
Other expenses	15,000	-

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

17. CONTINGENCIES

Financing

The Company is financed in part by the issue of flow-through shares. However, although it has taken all the necessary measures in this regard, there is no guarantee that the funds spent by the Company regarding these shares will be deemed eligible by tax authorities in the event of an audit. Refusal of certain expenses by the tax authorities would have a negative tax impact for investors. Exploration work commitments that are not respected are subject to a combined tax rate of 26.9% (Canada and Quebec). The Company received an amount of $2,552,610 after waiving the tax deductions for flow-through investments. These eligible expenses must be incurred by December 31, 2014. As at June 30, 2014, the balance of eligible expenses to be incurred was $343,225 ($904,737 in 2013).

Environment and letters of guarantee

The Company’s operations are regulated by governmental laws relating to environmental protection. Environmental consequences are difficult to predict, whether in terms of their outcomes, timing or impact. Currently, to the best of management’s knowledge, the Company is operating in compliance with current legislation. Letters of guarantee in the amount of $930,000 ($930,000 in 2013) issued in favour of the Ministère des Ressources naturelles were replaced by sureties in an equivalent amount to guarantee certain site closing costs.

These letters were secured by guaranteed investment certificates in an equivalent amount (note 5).

SCHEDULES

	2014 $ (3 months)	2013 $ (3 months)	2014 $ (6 months)	2013 $ (6 months)
A - ADMINISTRATIVE EXPENSES				
Share-based payments	148,843	94,500	192,715	223,200
Salaries and employee benefits	444,110	248,192	688,800	535,516
Fees	151,500		207,750	-
Insurance	13,763	13,176	27,563	26,352
Maintenance and office supplies	47,596	15,846	71,087	36,442
Board of Director expenses	42,581	45,855	82,409	65,817
Shareholder information	66,933	9,533	82,752	65,301
Rent	36,084	34,121	73,195	71,682
Promotion and entertainment	48,847	41,935	70,823	152,699
Travel	41,905	31,107	108,041	73,160
Professional services	349,642	105,616	372,685	217,024
Tax on capital	-	-	-	11,748
Telecommunications	4,951	4,813	9,614	8,722
Depreciation of property, plant and equipment	29,136	26,292	61,825	52,584
Other expenses	8,137	8,942	13,895	13,424
Re-invoiced work	(65,197)	-	(65,197)	-
	1,368,831	679,928	1,997,957	1,553,671
B - OPERATING EXPENSES				
Share-based payments	-	-	-	-
Salaries and employee benefits	332,822	216,515	592,981	474,674
Insurance	438	543	876	800
Maintenance and office supplies	9,801	15,384	23,112	31,883
Travel	4,646	5,966	37,789	19,538
Training	892	2,360	1,497	6,424
Rent	39,480	40,465	80,672	79,833
Professional services	-	-	10,000	2,240
Telecommunications	1,001	2,207	2,157	4,092
Depreciation of property, plant and equipment	49,024	49,754	103,711	99,429
Other expenses	-	375	5,973	3,784
Charged to exploration and evaluation assets	(279,260)	(333,569)	(699,924)	(509,752)
Subcontracted exploration work	826,196	-	826,196	-
Re-invoiced work	(985,040)	-	(985,040)	-
	-	-	-	212,945
FINANCIAL INCOME AND EXPENSES				
Interest income	(13,298)	(9,794)	(31,558)	(40,088)
Accretion expense	12,131	-	12,131	-
Bank charges	1,422	882	2,417	2,447
Debt interest	29,887	-	59,618	-
	30,142	(8,912)	42,608	(37,641)