CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE PERIODS ENDED JUNE 30, 2016 AND 2015

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

NOTICE OF DISCLOSURE OF NON-AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

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, 2016 and 2015 have been prepared in accordance with International Financial Reporting Standards and are the responsibility of management.

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

August 25, 2016

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[in Canadian dollars]

[unaudited]

	As at June 30, 2016 $	As at December 31, 2015 $
ASSETS		
Current		
Cash and cash equivalents *[Note 3]*	**629,438**	3,321,697
Cash and cash equivalents held for exploration *[Note 3]*	**3,297,691**	4,201,075
Accounts receivable *[Note 4]*	**1,427,072**	1,735,616
Prepaid expenses	**54,034**	94,676
Inventories	**21,148**	42,986
Total current assets	**5,429,383**	9,396,050
Non-current		
Guarantee deposits *[Note 18]*	**450,000**	—
Investments in associates *[Note 5]*	**36,585,339**	36,583,849
Property, plant and equipment *[Note 6]*	**407,868**	446,417
Exploration and evaluation assets *[Note 7]*	**44,097,030**	43,419,895
Total non-current assets	**81,540,237**	80,450,161
	86,969,620	89,846,211
LIABILITIES AND EQUITY		
Current		
Trade and other payables *[Note 8]*	**2,265,430**	3,963,782
Current portion of deferred lease inducements	**—**	11,418
Current portion of bank borrowings *[Note 9]*	**6,692**	6,609
Partner advances for planned exploration work *[Note 10]*	**1,736,342**	1,881,112
Liability related to flow-through shares *[Note 11]*	**229,893**	363,655
Total current liabilities	**4,238,357**	6,226,576
Non-current		
Partners' share in guarantee deposits *[Note 10]*	**199,873**	—
Bank borrowings *[Note 9]*	**16,876**	20,243
Provision for site restoration *[Note 12]*	**1,390,226**	1,373,060
Deferred income tax liabilities	**7,684,846**	7,879,371
Total non-current liabilities	**9,291,821**	9,272,674
Total liabilities	**13,530,178**	15,499,250
Equity		
Share capital *[Note 14]*	**64,839,541**	64,829,868
Contributed surplus	**5,778,989**	5,756,445
Retained earnings	**2,820,912**	3,760,648
Total equity	**73,439,442**	74,346,961
	86,969,620	89,846,211

Contingencies *[Note 18]*

Subsequent events *[Note 20]*

See accompanying notes

On behalf of the Board of Directors,

(signed) Myron Tétreault

On behalf of the Board of Directors,

(signed) Charles Boulanger

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

[in Canadian dollars]

[unaudited]

For the periods ended June 30

	2016 [3 months] $	2015 [3 months] $	2016 [6 months] $	2015 [6 months] $
		[Restated *[Note 13]*]		[Restated *[Note 13]*]
Revenues				
Project management	**14,087**	36,639	**30,811**	134,194
Other income	**—**	7,028	**—**	12,240
	14,087	43,667	**30,811**	146,434
Expenses				
Administrative expenses *[Schedule A]*	**833,158**	472,190	**1,219,020**	885,722
Operating expenses *[Schedule B]*	**—**	—	**—**	—
Financial income and expenses *[Schedule C]*	**423**	(3,005)	**7,198**	(1,232)
Share of associates *[Note 5]*	**40,399**	49,567	**72,616**	92,556
	873,980	518,752	**1,298,834**	977,046
Loss before taxes	**(859,893)**	(475,085)	**(1,268,023)**	(830,612)
Deferred tax recovery	**(227,992)**	(112,290)	**(328,287)**	(162,294)
Net loss and comprehensive loss	**(631,901)**	(362,795)	**(939,736)**	(668,318)
Basic net loss per share *[Note 15]*	**(0.007)**	(0.005)	**(0.010)**	(0.009)
Diluted net loss per share *[Note 15]*	**(0.007)**	(0.005)	**(0.010)**	(0.009)

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in Canadian dollars]

	Share capital *[Note 14]* $	**Contributed surplus** $	**Retained earnings** $	**Total equity** $
Balance as at January 1, 2015	59,307,265	5,480,501	5,313,283	70,101,049
Shares issued	1,609,815	—	—	1,609,815
Share-based compensation	—	53,281	—	53,281
Issuance costs	(178,047)	—	—	(178,047)
Deferred taxes related to issuance costs	48,164	—	—	48,164
Net loss and comprehensive loss	—	—	(668,318)	(668,318)
	1,479,932	53,281	(668,318)	864,895
Balance as at June 30, 2015 – [Restated *[Note 13]*]	60,787,197	5,533,782	4,644,965	70,965,944
Shares issued	4,270,500	—	—	4,270,500
Share-based compensation	—	222,663	—	222,663
Issuance costs	(311,299)	—	—	(311,299)
Deferred taxes related to issuance costs	83,470	—	—	83,470
Net loss and comprehensive loss	—	—	(884,317)	(884,317)
	4,042,671	222,663	(884,317)	3,381,017
Balance as at January 1, 2016	64,829,868	5,756,445	3,760,648	74,346,961
Shares issued	**10,500**	**—**	**—**	**10,500**
Share-based compensation	**—**	**22,544**	**—**	**22,544**
Issuance costs	**(827)**	**—**	**—**	**(827)**
Deferred taxes related to issuance costs	**—**	**—**	**—**	**—**
Net loss and comprehensive loss	**—**	**—**	**(939,736)**	**(939,736)**
	9,673	**22,544**	**(939,736)**	**(907,519)**
Balance as at June 30, 2016	**64,839,541**	**5,778,989**	**2,820,912**	**73,439,442**

PÉTROLIA

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in Canadian dollars]

[unaudited]

For the periods ended June 30

	2016 [6 months] $	**2015** [6 months] $
		[Restated *[Note 13]*]
OPERATING ACTIVITIES		
Net loss	**(939,736)**	(668,318)
Items not affecting cash:		
Depreciation of property, plant and equipment	**12,239**	11,750
Deferred tax recovery	**(328,287)**	(162,294)
Share-based compensation	**22,544**	53,281
Amortization of deferred lease inducements	**(11,418)**	(13,700)
Loss (gain) on disposal of property, plant and equipment	**(125)**	2,677
Accretion expense	**17,166**	16,537
Share of associates	**72,616**	92,556
	(1,155,001)	(667,511)
Net change in non-cash operating items *[Note 19]*		
Accounts receivable	**268,881**	39,183
Prepaid expenses	**51,142**	(62,785)
Inventories	**21,838**	180,986
Trade and other payables	**(41,339)**	459,718
	300,522	617,102
Cash flows related to operating activities	**(854,479)**	(50,409)
INVESTING ACTIVITIES		
Guarantee deposits	**(450,000)**	—
Acquisitions of interests in associates	**—**	(43)
Additions to property, plant and equipment	**(6,079)**	—
Acquisitions of oil and gas properties, net of recovered amounts	**(92,509)**	(95,719)
Increase in deferred exploration costs, net of recovered amounts	**(2,027,978)**	(4,762,277)
Proceeds from disposal of property, plant and equipment	**125**	8,152
Contributions to associates	**(75,582)**	—
Cash flows related to investing activities	**(2,652,023)**	(4,849,887)
FINANCING ACTIVITIES		
Shares issued	**—**	2,182,800
Issuance costs	**(85,857)**	(179,047)
Repayment of bank borrowings	**(3,284)**	(3,203)
Cash flows related to financing activities	**(89,141)**	2,000,550
Net decrease in cash and cash equivalents	**(3,595,643)**	(2,899,746)
Cash and cash equivalents, beginning of period	**7,522,772**	5,239,511
Cash and cash equivalents, end of period *[Note 19]*	**3,927,129**	2,339,765

See accompanying notes

PÉTROLIA

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended June 30, 2016 and 2015

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

Incorporation and nature of business

The Company, incorporated under Part IA of the Québec *Companies Act* and governed by the provisions of the Québec *Business Corporations Act*, is an oil and gas exploration company. Its stock has been listed on the TSX Venture Exchange since February 16, 2005 under the symbol PEA. Its head office is located at 305 Charest Blvd. E., 10th Floor, Québec City, Québec, Canada G1K 3H3. After the end of the period, the Company moved into new premises at 511 St-Joseph Street, 2nd floor, Suite 304, Québec City, Québec G1K 3B7.

Condensed interim consolidated financial information

The financial information as at June 30, 2016 and for the six-month periods ended June 30, 2016 and 2015 is unaudited. However, it is management's view that all adjustments required to present fairly the results for these periods have been made. The adjustments made were of a normal recurring nature. The interim consolidated operating results do not necessarily reflect the operating results anticipated for the full fiscal year.

Approval date

These condensed interim consolidated financial statements for the six-month periods ended June 30, 2016 and 2015 were approved by the Board of Directors on August 25, 2016.

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

These condensed interim consolidated financial statements were prepared in accordance with applicable IFRS and IAS 34, *Interim Financial Reporting*, published by the International Accounting Standards Board ("IASB") and set out in the *CPA Canada Handbook*. The accounting policies and the methods of computation applied in these condensed interim consolidated financial statements are the same as those in the most recent annual financial statements. The condensed interim consolidated financial statements should be read in conjunction with the audited annual financial statements for the fiscal year ended December 31, 2015, including the notes thereto.

All amounts are expressed in Canadian dollars.

For the periods ended June 30, 2016 and 2015

3. CASH AND CASH EQUIVALENTS

	As at June 30, 2016 $	As at December 31, 2015 $
Cash	**2,565,454**	3,850,530
Guaranteed investment certificates (redeemable on demand)	**1,361,675**	3,672,242
	3,927,129	7,522,772
Less: Cash and cash equivalents held for exploration purposes		
Flow-through shares[1]	**1,531,497**	2,041,067
Bourque Project[2]	**1,766,194**	2,160,008
	3,297,691	4,201,075
Cash and cash equivalents	**629,438**	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 June 30, 2016 and December 31, 2015 from partner advances which, under the agreements, must be spent on exploration work related to the Bourque Project.

As at June 30, 2016, cash and cash equivalents included guaranteed investment certificates bearing interest at 1.20% maturing on September 1, 2016. As at December 31, 2015, cash and cash equivalents included guaranteed investment certificates bearing interest at 1.20% maturing on March 3, 2016. These instruments are redeemable at any time without penalty.

4. RECEIVABLES

	As at June 30, 2016 $	As at December 31, 2015 $
Partners	**113,096**	145,312
Associates *[Note 16]*	**762,885**	944,309
Commodity taxes	**-**	156,562
Tax credits receivable	**133,169**	160,616
Interest receivable	**1,356**	3,622
Other	**416,566**	325,195
	1,427,072	1,735,616

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

All the amounts have short-term maturities.

5. INVESTMENTS IN ASSOCIATES

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

Partners	**Ownership interest**
Ressources Québec	35%
Pétrolia Inc.	21.7%
Corridor Resources Inc.	21.7%
Saint-Aubin E&P (Québec) Inc.	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 six-month period ended June 30, 2016	**(49,205)**	**(23,411)**	**(72,616)**
Contributions for the six-month period ended June 30, 2016	**49,205**	**24,901**	**74,106**
Value of the interest as at June 30, 2016	**36,583,806**	**1,533**	**36,585,339**

Financial information

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

	As at June 30, 2016 $	**As at December 31, 2015 $**
Current assets	**792,732**	**2,435,899**
Non-current assets	**124,737,961**	**122,770,776**
Current liabilities	**1,027,543**	**1,286,069**
Non-current liabilities	**22,584**	**22,308**
Partners' equity	**124,480,566**	**123,898,298**
Revenues	—	—
Net loss and comprehensive loss	**(335,153)**	**(664,590)**
Share of Pétrolia [21.7%]	**(72,616)**	**(143,995)**

6. PROPERTY, PLANT AND EQUIPMENT

	Land $	Leasehold improvements $	IT, office and field equipment $	Automotive equipment $	Reserves $	Field offices $	Total $
Gross carrying amount							
Balance as at December 31, 2015	**75,434**	**343,049**	**314,526**	**86,378**	**322,881**	**186,107**	**1,328,375**
Additions	**—**	**—**	**5,187**	**—**	**—**	**—**	**5,187**
Disposals	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Balance as at June 30, 2016	**75,434**	**343,049**	**319,713**	**86,378**	**322,881**	**186,107**	**1,333,562**
Accumulated depreciation							
Balance as at December 31, 2015	**—**	**304,684**	**234,863**	**58,537**	**183,763**	**100,111**	**881,958**
Disposals	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Depreciation	**—**	**7,302**	**9,746**	**4,176**	**13,912**	**8,600**	**43,736**
Balance as at June 30, 2016	**—**	**311,986**	**244,609**	**62,713**	**197,675**	**108,711**	**925,694**
Net carrying amount as at December 31, 2015	75,434	38,365	79,663	27,841	139,118	85,996	446,417
Net carrying amount as at June 30, 2016	**75,434**	**31,063**	**75,104**	**23,665**	**125,206**	**77,396**	**407,868**

7. EXPLORATION AND EVALUATION ASSETS

Oil and gas properties

	December 31, 2015 $	Transfers $	Additions $	June 30, 2016 $
Québec				
Anticosti[1]	—	—	—	—
Gastonguay	768,263	—	**26,420**	**794,683**
Gaspésia – Edgar – Marcel-Tremblay	493,222	—	**22,457**	**515,679**
Gaspé1	3,534,467	—	**43,632**	**3,578,099**
Matapédia	177,746	—	—	**177,746**
Total oil and gas properties	4,973,698	—	**92,509**	**5,066,207**

Exploration expenses

	December 31, 2015 $	Transfers $	Additions $	June 30, 2016 $
Québec				
Anticosti	231,304	—	**1,321**	**232,625**
Gastonguay	76,900	—	—	**76,900**
Gaspésia – Edgar – Marcel-Tremblay	3,795,750	—	—	**3,795,750**
Gaspé	3,429,105	—	**70,105**	**3,499,210**
Bourque Project	22,806,587	—	**146,207**	**22,952,794**
Haldimand Project	28,511,918	—	**560,897**	**29,072,815**
Tar Point Project No. 1	5,252,488	—	**1,705**	**5,254,193**
Matapédia	1,205,343	—	—	**1,205,343**
	65,309,395	—	**780,235**	**66,089,630**

	December 31, 2015 $	Transfers $	Additions $	June 30, 2016 $
Deductions				
Exploration subsidies and partner contributions:				
Anticosti	5,847	—	—	**5,847**
Gastonguay	19,020	—	—	**19,020**
Gaspésia – Edgar – Marcel-Tremblay	428,740	—	—	**428,740**
Gaspé	711,141	—	—	**711,141**
Bourque Project	9,135,127	—	**(55,103)**	**9,080,024**
Haldimand Project	14,526,382	—	**220,900**	**14,747,282**
Tar Point Project No. 1	1,051,894	—	—	**1,051,894**
Matapédia	658,824	—	—	**658,824**
	26,536,975	—	**165,797**	**26,702,772**
Revenue from oil reserve evaluation:				
Gaspé				
Haldimand Project	326,223	—	**29,812**	**356,035**
Total exploration expenses	38,446,197	—	**584,626**	**39,030,823**

PÉTROLIA

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended June 30, 2016 and 2015

Summary as at June 30, 2016

	December 31, 2015 $	Transfers $	Additions $	June 30, 2016 $
Properties	4,973,698	—	**92,509**	**5,066,207**
Exploration expenses	38,446,197	—	**584,626**	**39,030,823**
Exploration and evaluation assets	43,419,895	—	**677,135**	**44,097,030**

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

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

8. TRADE AND OTHER PAYABLES

	As at June 30, 2016 $	As at December 31, 2015 $
Trade payables and accrued liabilities	**1,842,500**	3,602,372
Salaries, vacation pay and director fees	**340,584**	300,264
Partners	**9,842**	31,389
Commodity taxes	**44,223**	—
Contributions to associates *[Note 16]*	**28,281**	29,757
	2,265,430	3,963,782

9. BANK BORROWINGS

	As at June 30, 2016 $	As at December 31, 2015 $
Ford Credit loan to acquire automotive equipment, repayable in $600 monthly payments of principal and interest at 2.5% and maturing on November 4, 2019.	**23,568**	26,852
Less current portion	**6,692**	6,609
	16,876	20,243

10. PARTNER ADVANCES FOR PLANNED EXPLORATION WORK

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

	As at June 30, 2016 [6 months] $	As at December 31, 2015 [12 months] $
Balance, beginning of period	**1,881,112**	—
Partner advances	**—**	2,268,200
Partners' share in guarantee deposits	**(199,873)**	—
Partner contributions for work carried out during the period	**55,103**	(387,088)
Balance, end of period	**1,736,342**	1,881,112

11. LIABILITY RELATED TO FLOW-THROUGH SHARES

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

	As at June 30, 2016	**As at December 31, 2015**
	[6 months]	[12 months]
	$	**$**
Balance, beginning of period	**363,655**	64,942
Issuance of flow-through shares	—	802,485
Reduction of the liability based on the work carried out in respect of which the Company has renounced the tax deductions	**(133,762)**	(503,772)
Balance, end of period	**229,893**	363,655

12. PROVISION FOR SITE RESTORATION

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

As at June 30, 2016, the total future estimated amount required to settle obligations related to site restoration, indexed at 2% [December 31, 2015 – 2%], stood at $1,390,226 [December 31, 2015 – $1,373,060]. The total future amount was discounted using a weighted average rate of 2.5% [December 31, 2015 – 2.5%] over a horizon ranging from 2 to 20 years [December 31, 2015 – 2-to 20-year horizon]. The total undiscounted amount of the estimated cash flows required to settle these obligations is $1,395,500 [December 31, 2015 – $1,395,500].

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

	As at June 30, 2016 [6 months] **$**	**As at December 31, 2015** [12 months] **$**
Balance, beginning of period	**1,373,060**	816,220
Liabilities incurred	**—**	—
Accretion expense	**17,166**	27,108
Change in accounting estimates	**—**	529,732
Amount used	**—**	—
Balance, end of period	**1,390,226**	1,373,060
Current portion of liability	**—**	—
	1,390,226	1,373,060

13. DEFERRED TAX

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

For the periods ended June 30, 2016 and 2015

14. SHARE CAPITAL

Authorized

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

	As at June 30, 2016 [6 months]		As at December 31, 2015 [12 months]	
	Number of shares	**Amount $**	**Number of shares**	**Amount $**
Issued				
Balance, beginning of period	**92,420,195**	**64,829,868**	77,616,695	59,307,265
Share issuance:				
Shares issued	**50,000**	**10,500**	14,803,500	5,880,315
Issuance costs		**(827)**		(489,346)
Deferred tax related to issuance costs		**—**		131,634
Balance, end of period	**92,470,195**	**64,839,541**	92,420,195	64,829,868

Share-based payments

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

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

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

	As at June 30, 2016 [6 months]		**As at December 31, 2015** [12 months]	
	Number of options	**Weighted average exercise price** $	**Number of options**	**Weighted average exercise price** $
Outstanding, beginning of period	**8,575,000**	**0.87**	7,522,500	0.97
Granted	**225,000**	**0.22**	1,950,000	0.36
Exercised	—	—	—	—
Forfeited	**(1,125,000)**	**1.52**	(897,500)	0.65
Outstanding, end of period	**7,675,000**	**0.79**	8,575,000	0.87
Exercisable	**6,042,500**	**0.90**	6,867,500	0.97

15. LOSS PER SHARE

Basic loss per share is calculated by dividing net loss for the fiscal year by the weighted average number of common shares outstanding during the period. In calculating diluted loss per share for the periods ended June 30, 2016 and 2015, potential common shares, such as certain options and warrants, were not included as they would have the effect of decreasing the loss per share, which would be antidilutive.

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended June 30, 2016 and 2015

	As at June 30, 2016 [3 months]	**As at June 30, 2015** [3 months] [Restated *[Note 13]*]	**As at June 30, 2016** [6 months]	**As at June 30, 2015** [6 months] [Restated *[Note 13]*]
Net loss	**$(631,901)**	$(362,795)	**$(939,736)**	$(668,318)
Weighted average number of shares – basic	**92,448,064**	80,345,195	**92,429,536**	78,298,820
Dilutive effect of warrants and options	—	—	—	—
Weighted average number of diluted shares	**92,448,064**	80,345,195	**92,429,536**	78,298,820
Basic net loss per share	**$(0.007)**	$(0.005)	**$(0.010)**	$(0.009)
Diluted net loss per share	**$(0.007)**	$(0.005)	**$(0.010)**	$(0.009)

16. 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.

For the periods ended June 30, 2016 and 2015

Transactions with key management personnel

Key management personnel compensation includes the following expenses:

	As at June 30, 2016 [6 months] **$**	**As at June 30, 2015** [6 months] **$**
Short-term employee benefits:		
Salaries and employee benefits	**215,843**	466,191
Termination benefit	**150,000**	-
Director fees	**83,742**	66,947
Total short-term employee benefits	**449,585**	533,138
Fees	**42,900**	50,600
Share-based compensation	**19,777**	53,281
Total compensation	**512,262**	637,019

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

Related companies and other parties

Transactions were carried out:

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

	As at June 30, 2016 [6 months] **$**	**As at June 30, 2015** [6 months] **$**
Comprehensive loss:		
Other expenses	**7,800**	9,200

With an associate:

	As at June 30, 2016 [6 months] **$**	**As at June 30, 2015** [6 months] **$**
Comprehensive loss:		
Project management	**20,116**	**42,224**

As at June 30 2016, an amount of $762,885 [December 31, 2015 – $944,309] was receivable from Anticosti Hydrocarbons L.P.

In addition, as at June 30, 2016, a contribution of $28,281 [December 31, 2015 – $19,637] was payable to Anticosti Hydrocarbons L.P., while no contribution [December 31, 2015 – $10,120] was payable to Anticosti Hydrocarbons General Partner Inc.

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

17. FINANCIAL INSTRUMENTS

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

	As at June 30, 2016			
	Fair value through profit or loss $	**Loans and receivables** $	**Other financial liabilities** $	**Total carrying amount** $
Financial asset				
Cash and cash equivalents[1]	3,927,129	—	—	3,927,129
Receivables[2]	—	1,293,903	—	1,293,903
	3,927,129	1,293,903	—	5,221,032
Financial liability				
Trade and other payables	—	—	2,265,430	2,265,430
Bank borrowings	—	—	23,568	23,568
	—	—	2,288,998	2,288,998

	As at December 31, 2015			
	Fair value through profit or loss $	Loans and receivables $	Other financial liabilities $	Total carrying amount $
Financial asset				
Cash and cash equivalents[1]	7,522,772	—	—	7,522,772
Receivables[2]	—	1,418,438	—	1,418,438
	7,522,772	1,418,438	—	8,941,210
Financial liability				
Trade and other payables	—	—	3,963,782	3,963,782
Bank borrowings	—	—	26,852	26,852
	—	—	3,990,634	3,990,634

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

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

18. CONTINGENCIES

Financing

The Company is financed in part by the issue of flow-through shares. However, although it has taken all the necessary measures in this regard, there is no guarantee that the funds spent by the Company regarding these shares will be deemed eligible by tax authorities in the event of an audit. Refusal of certain expenses by the tax authorities would have a negative tax impact for investors. Exploration work commitments that are not respected are subject to a combined tax rate of 26.9% [Canada and Québec]. During the year ended December 31, 2015, the Company received an amount of $3,712,800 following the issue of flow-through shares for which it waived the tax deductions. This amount must be incurred by December 31, 2016. As at June 30, 2016, the remaining eligible expenses to be incurred totalled $1,531,497 [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. The Company is currently in the process of renewing the guarantees provided to the Ministère des Ressources naturelles to secure the completion of certain site closures. During the six-month period ended June 30, 2016, guarantee deposits amounting to $450,000 were paid by the Company under performance guarantees. Letters of guarantee amounting to $480,000 were issued by a financial institution to the Ministère des Ressources naturelles to guarantee the completion of certain site closures.

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.

19. SUPPLEMENTAL CASH FLOW INFORMATION

Items not affecting cash and cash equivalents

	2016 [6 months] $	**2015** [6 months] $
Receivables related to exploration and evaluation assets	**(39,663)**	212,811
Trade payables related to exploration and evaluation assets	**1,569,615**	2,916,543
Additions to property, plant and equipment included under trade payables	**892**	—
Shares issued in consideration for prepaid expenses	**10,500**	—
Share issuance costs included in trade payables	**85,030**	—
Contributions to associates included under other payables	**1,476**	**(111,702)**
Other information		
Interest paid	**317**	398
Interest received	**17,894**	19,491

Cash and cash equivalents comprise:

	As at June 30, 2016 [6 months] $	As at June 30, 2015 [6 months] $
Cash	**2,565,454**	748,157
Guaranteed investment certificates (redeemable on demand)	**1,361,675**	1,591,608
	3,927,129	2,339,765

20. SUBSEQUENT EVENTS

In connection with Anticosti Hydrocarbons L.P.'s exploration work for which the Company serves as an operator, the Company filed an injunction on July 12, 2016 to require its project partners Ressources Québec Inc. and Saint-Aubin E&P (Québec) Inc. to fulfill their respective contractual obligations. On July 25, 2016, the judge acknowledged the clear obligation of Ressources Québec Inc. and Saint-Aubin E&P (Québec) Inc. to finance the exploration program and issued orders accordingly. The judgment recognizes in this respect the Company's financial requirements and orders the partners to provide for the Company's ongoing and administrative expenses on a monthly basis until May 2017. In addition to these orders, the Court also took note of the commitment of Ressources Québec Inc. and Saint-Aubin E&P (Québec) Inc. to finance, as of now, the construction of drilling platforms.

On July 15, 2016, the Company confirmed the closing of a private placement, issuing 4,629,686 flow-through shares at $0.27 per share for gross proceeds of $1,250,015. In consideration of the services provided in connection with this private placement, intermediary fees in the amount of $85,000 were paid in cash and recognized as a reduction in the Company's share capital.

Also, the Corporation confirmed the closing of the second phase of financing for the Bourque project by Ressources Québec Inc. for a total amount of $8,500,000. This investment constitutes a direct interest in the four licences related to the Bourque property. As part of this second phase, Ressources Québec Inc. will invest the amount of $8,500,000 following quarterly calls for funds in exchange for 38.88% and 1.32%, respectively, of the Corporation's and TUGLIQ Énergie Corp's interests in these licences. The Company will use the proceeds of this investment to carry out the Bourque exploration program during 2016. Following the 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 Énergie Corp.

ADMINISTRATIVE AND OPERATING EXPENSES

For the periods ended June 30

Schedule A

	2016 [3 months] $	2015 [3 months] $	2016 [6 months] $	2015 [6 months] $
Administrative expenses				
Share-based compensation	**22,544**	31,006	**22,544**	53,281
Salaries and employee benefits	**360,567**	198,045	**587,140**	409,467
Fees	**21,450**	21,450	**42,900**	50,600
Insurance	**9,885**	14,965	**19,770**	27,853
Maintenance and office supplies	**16,400**	19,122	**36,800**	42,074
Board of Directors fees	**51,178**	43,358	**102,461**	84,589
Shareholder reporting	**22,405**	52,482	**28,820**	67,108
Rent	**15,457**	34,030	**30,345**	68,592
Amortization of deferred lease inducements	**(4,568)**	(6,850)	**(11,418)**	(13,700)
Promotion and entertainment	**5,396**	3,125	**6,955**	10,889
Travel	**19,691**	23,097	**31,963**	35,986
Professional services	**371,313**	81,929	**453,253**	106,841
Telecommunications	**6,585**	4,655	**12,505**	10,772
Depreciation of property, plant and equipment	**5,907**	5,600	**12,239**	11,750
Loss (gain) on disposal of property, plant and equipment	**—**	2,677	**(125)**	2,677
Other expenses	**10,099**	(185)	**28,803**	4,992
Total administrative expenses before re-invoicing of expenses	**934,309**	528,506	**1,404,955**	973,771
Re-invoicing of expenses	**(101,151)**	(56,316)	**(185,935)**	(88,049)
	833,158	472,190	**1,219,020**	885,722

Schedule B

	2016 [3 months] $	2015 [3 months] $	2016 [6 months] $	2015 [6 months] $
Operating expenses				
Salaries and employee benefits	**237,683**	254,671	**467,232**	783,547
Insurance	**462**	381	**924**	827
Maintenance and office supplies	**746**	92	**988**	402
Travel	**135**	4,386	**1,928**	7,631
Training	**—**	—	**—**	12,132
Rent	**19,925**	39,721	**40,052**	79,219
Professional services	**15,812**	16,323	**15,812**	16,323
Telecommunications	**775**	991	**1,359**	2,033
Depreciation of property, plant and equipment	**16,071**	18,268	**31,497**	36,712
Loss on disposal of property, plant and equipment	**—**	2,188	**—**	2,188
Other expenses	**2,137**	3,273	**2,301**	3,477
Total operating expenses before re-invoicing of expenses and transfer to exploration and evaluation assets	**293,746**	340,294	**562,093**	944,491
Re-invoicing of expenses[1]	**(120,246)**	(163,106)	**(227,016)**	(261,990)
Transfer to exploration and evaluation assets	**(173,500)**	(177,188)	**(335,077)**	(682,501)
	—	—	**—**	—

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

FINANCIAL INCOME AND EXPENSES

For the periods ended June 30

	2016 [3 months] $	**2015** [3 months] $	**2016** [6 months] $	**2015** [6 months] $
Interest income	**(9,185)**	(11,775)	**(15,628)**	(19,491)
Bank charges	**1,025**	502	**4,570**	1,722
Interest expense	**—**	—	**1,090**	—
Accretion expense	**8,583**	8,268	**17,166**	16,537
	423	(3,005)	**7,198**	(1,232)