CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED)

FOR THE PERIODS ENDED JUNE 30, 2017 AND 2016

NOTICE OF DISCLOSURE OF NON-AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

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, 2017 and 2016 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 29, 2017

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[in Canadian dollars]

[unaudited]

	As at June 30, 2017 $	As at December 31, 2016 $
ASSETS		
Current		
Cash and cash equivalents *[note 5]*	—	788,704
Cash and cash equivalents held for exploration *[note 5]*	**3,392,225**	5,703,494
Receivables *[note 6]*	**280,863**	843,913
Prepaid expenses	**160,625**	230,524
Inventories	**88,253**	330,960
Total current assets	**3,921,966**	7,897,595
Non-current		
Restricted cash equivalents *[note 5]*	**630,000**	630,000
Guarantee deposits *[note 18]*	**600,000**	600,000
Interests in associates *[note 7]*	**20,651,396**	36,555,789
Property, plant and equipment *[note 8]*	**291,418**	554,018
Exploration and evaluation assets *[note 9]*	**26,047,688**	44,981,338
Total non-current assets	**48,220,502**	83,321,145
	52,142,468	91,218,740
LIABILITIES AND EQUITY		
Current		
Trade and other payables *[note 11]*	**1,718,720**	3,964,251
Current portion of deferred lease inducements	**18,071**	17,538
Current portion of bank borrowings	**6,860**	6,776
Partner advances for planned exploration work *[note 12]*	**1,601,943**	1,993,378
Provision for contingent liability *[note 13]*	—	350,000
Liability related to flow-through shares	**169,695**	77,893
Total current liabilities	**3,515,289**	6,409,836
Non-current		
Partners' share in security deposits *[note 18]*	**293,820**	293,820
Deferred lease inducements	**188,536**	197,706
Bank borrowings	**10,016**	13,467
Provision for site restoration *[note 13]*	**1,482,851**	1,464,545
Deferred income tax liabilities	**205,862**	8,121,365
Total non-current liabilities	**2,181,085**	10,090,903
Total liabilities	**5,696,374**	16,500,739
Equity		
Share capital *[note 14]*	**67,669,248**	66,892,274
Contributed surplus	**6,012,249**	6,005,589
Retained earnings (deficit)	**(27,235,403)**	1,820,138
Total equity	**46,446,094**	74,718,001
	52,142,468	91,218,740

Agreement with Pieridae Energy Limited *[note 4]*

Contingencies *[note 18]*

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

	2017 [3 months] $	2016 [3 months] $	2017 [6 months] $	2016 [6 months] $
Revenues				
Project management	**4,192**	14,087	**16,453**	30,811
Expenses				
Administrative expenses	**1,157,399**	833,158	**1,564,157**	1,219,020
Impairment of interests in associates *[note 7]*	**15,906,727**	—	**15,906,727**	—
Impairment of property, plant and equipment *[notes 8 and 10]*	**—**	—	**228,172**	—
Impairment of exploration and evaluation assets *[notes 9 and 10]*	**—**	—	**19,207,595**	—
Financial income and expenses	**6,951**	423	**11,471**	7,198
Share of net loss of associates *[note 7]*	**28,267**	40,399	**60,895**	72,616
	17,099,344	873,980	**36,979,017**	1,298,834
Loss before taxes	**(17,095,152)**	(859,893)	**(36,962,564)**	(1,268,023)
Deferred tax recovery	**(4,515,108)**	(227,992)	**(7,907,023)**	(328,287)
Net loss and comprehensive loss	**(12,580,044)**	(631,901)	**(29,055,541)**	(939,736)
Basic net loss per share *[note 15]*	**(0.116)**	(0.007)	**(0.274)**	(0.010)
Diluted net loss per share *[note 15]*	**(0.116)**	(0.007)	**(0.274)**	(0.010)

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in Canadian dollars]
[unaudited]

	Share capital *[note 14]* $	Contributed surplus $	Retained earnings (deficit) $	Total equity $
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)
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
Shares issued	2,205,088	—	—	2,205,088
Share-based compensation	—	226,600	—	226,600
Issuance costs	(208,724)	—	—	(208,724)
Deferred taxes related to issuance costs	56,369	—	—	56,369
Net loss and comprehensive loss	—	—	(1,000,774)	(1,000,774)
	2,052,733	226,600	(1,000,774)	1,278,559
Balance as at January 1, 2017	66,892,274	6,005,589	1,820,138	74,718,001
Shares issued	**835,556**	**—**	**—**	**835,556**
Issuance costs	**(79,704)**	**—**	**—**	**(79,704)**
Deferred taxes related to issuance costs	**21,122**	**—**	**—**	**21,122**
Net loss and comprehensive loss	**—**	**—**	**(29,055,541)**	**(29,055,541)**
	776,974	**6,660**	**(29,055,541)**	**(28,271,907)**
Balance as at June 30, 2017	**67,669,248**	**6,012,249**	**(27,235,403)**	**46,446,094**

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in Canadian dollars]

[unaudited]

For the periods ended June 30

	2017 [6 months] $	**2016** [6 months] $
OPERATING ACTIVITIES		
Net loss	**(29,055,541)**	(939,736)
Items not affecting cash:		
Depreciation of property, plant and equipment	**8,868**	12,239
Deferred tax recovery	**(7,907,023)**	(328,287)
Share-based compensation	**6,660**	22,544
Amortization of deferred lease inducements	**(2,418)**	(11,418)
Gain on disposal of property, plant and equipment	**—**	(125)
Accretion expense	**18,306**	17,166
Impairment of interests in associates	**15,906,727**	—
Impairment of property, plant and equipment	**228,172**	—
Impairment of exploration and evaluation assets	**19,207,595**	—
Share of net loss of associates	**60,895**	72,616
	(1,527,759)	(1,155,001)
Net change in non-cash operating items		
Receivables	**563,050**	268,881
Prepaid expenses	**69,899**	51,142
Inventories	**242,707**	21,838
Trade and other payables	**(22,336)**	(41,339)
	853,320	300,522
Cash flows related to operating activities	**(674,439)**	(854,479)
INVESTING ACTIVITIES		
Security deposits	**—**	(450,000)
Additions to property, plant and equipment	**(1,311)**	(6,079)
Acquisitions of oil and gas properties, net of recovered amounts	**(130,180)**	(92,509)
Increase in exploration and evaluation costs, net of recovered amounts *[note 19]*	**(3,087,743)**	(2,027,978)
Proceeds from disposal of property, plant and equipment	**—**	125
Contributions to associates	**(63,229)**	(75,582)
Cash flows related to investing activities	**(3,282,463)**	(2,652,023)
FINANCING ACTIVITIES		
Shares issued	**940,000**	—
Share issuance costs	**(79,704)**	(85,857)
Repayment of bank borrowings	**(3,367)**	(3,284)
Cash flows related to financing activities	**856,929**	(89,141)
Net decrease in cash and cash equivalents	**(3,099,973)**	(3,595,643)
Cash and cash equivalents, beginning of period	**6,492,198**	7,522,772
Cash and cash equivalents, end of period *[note 19]*	**3,392,225**	3,927,129

See accompanying notes

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended June 30, 2017 and 2016

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

Incorporation and nature of business

The Company, incorporated under Part IA of the Québec *Companies Act* and governed by the provisions of the Québec *Business Corporations Act*, is an oil and gas exploration company. Its stock has been listed on the TSX Venture Exchange since February 16, 2005 under the symbol PEA. Its head office is located at 511 St-Joseph Street East, 2nd floor, Suite 304, Québec City, Québec, G1K 3B7.

Condensed interim consolidated financial information

The financial information as at June 30, 2017 and for the three- and six-month periods ended June 30, 2017 and 2016 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 three- and six-month periods ended June 30, 2017 and 2016 were approved by the Board of Directors on August 29, 2017.

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, 2016, including the notes thereto, except for the notes on judgments regarding the going-concern assumption and impairment of the interests in associates disclosed in note 4.1 to the financial statements as at December 31, 2016 which are no longer valid as at June 30, 2017 as a result of the agreement in principle entered into in the Anticosti matter; see note 7 to these financial statements.

All amounts are expressed in Canadian dollars.

3. 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.

Estimates and assumptions

Impairment of exploration and evaluation assets

Based on the analysis performed as at March 31, 2017, management determined that the negotiated fair value of the Company established in connection with the initial agreement entered into with Pieridae Energy Limited on May 15, 2017 is an indicator of impairment of the exploration and evaluation assets given that the recoverable amount of the Company, based on fair value less costs of disposal in connection with the transaction, was less than the carrying amount of the Company's net assets. The recoverable amount of the Company is very sensitive to the estimation of the redemption value of the preferred shares that were to be issued in connection with the initial agreement and which was based on the value of a negotiated settlement between the Company and the Québec government terminating oil exploration on Anticosti Island based on various probabilistic scenarios, as well as the discount rate used in measuring such after-tax amount. In addition, in accordance with IAS 36, the recoverable amount must exclude any amount allocated to unused operating tax losses, which also constitutes a significant estimate given their eligibility as operating tax losses within the new amalgamated entity, as well as the estimation of the time horizon over which they will be used, as well as the discount rate used in measuring the recoverable amount. The key assumptions used in determining the recoverable amount of the Company are explained in greater detail in note 10.

4. AGREEMENT WITH PIERIDAE ENERGY LTD.

On May 15, 2017, the Company entered into an initial agreement with Pieridae Energy Limited, a private Canadian corporation, providing for an amalgamation by way of plan of arrangement (the Arrangement), pursuant to which the Company and Pieridae will amalgamate to form a new entity to be named Pieridae Energy Limited (the Amalgamated Entity). The completion of the Arrangement will result in a reverse takeover of the Company as defined in the policies of the TSX Venture Exchange.

In connection with the Arrangement entered into on May 15, 2017, the rate of exchange for the shares represented 230% of the share price on the May 12, 2017 closing date, which priced the shares of the Company at $0.38. In addition, the Company's shareholders received one redeemable preferred share (maturing on December 31, 2018) for each of their common shares. The redemption value of the preferred shares was equal to 50% of any amount in cash receivable by the Amalgamated Entity arising from the agreement with the Government of Québec, net of any tax cost for the Company, in relation to the termination of oil and gas exploration of Anticosti Island. Pursuant to the Arrangement Agreement, Pieridae's shareholders received, for each of their shares, approximately 2.74 shares of the Amalgamated Entity. In addition, Pieridae agreed to use all reasonable commercial efforts to complete, on or before closing of the Arrangement, a private placement of Pieridae Subscription Receipts at a price of $12.50 per Pieridae Subscription Receipt for gross proceeds of $50,000,000, consisting of approximately $42,700,000 in cash and $6,300,000 in consideration for conversion of the Pieridae debenture, subject to any over-allotment.

On August 25, 2017, Pieridae Energy Limited closed a private placement of Pieridae Subscription Receipts at a price of $12.50 per Pieridae Subscription Receipt for gross proceeds of $25,651,525, consisting of $24,632,500 in cash and $1,019,125 in issuance of Pieridae Subscription Receipts to the agents in the form of commissions. In addition, the full amount of the US$5,000,000 Pieridae Debenture will be converted into Pieridae Shares immediately prior to closing of the Arrangement. Each Pieridae Subscription Receipt will be automatically converted into a share of Pieridae, which will be exchanged for common shares of the amalgamated company at the same time as the execution of the Arrangement. The net proceeds of this private placement will be used to fund certain activities of the Amalgamated Entity relating to the development of an integrated liquefied natural gas production project on Canada's East Coast and to meet its operating and working capital requirements.

The Arrangement was amended on August 24, 2017 to modify certain provisions of the initial agreement entered into on May 15, 2017. Further to the agreement with the Government of Québec in the Anticosti matter (see note 7), both parties agreed to modify the first step of the initial agreement to have a cash dividend declared by the Company to non-dissenting Company shareholders at the time of the Arrangement instead of the issuance of the preferred shares, as set out in the initial agreement. Such dividend will be of an aggregate amount of $9,012,002, or $0.0831 per Company share, and will be paid out by the Company on the closing date of the

Arrangement. This amount is equal to 50% of the Anticosti settlement amount, net of any tax expense. Furthermore, considering the reduction in the Pieridae private placement and the $20,500,000 compensation to be received by the Company further to the agreement with the Government of Québec regarding the Anticosti matter, both parties agreed to lower the exchange ratio by which each Pieridae shareholder will receive Amalgamated Entity shares for each of their shares from approximately 2.74 to approximately 2.21. Following this amendment, the exchange ratio for Company shares represents 286% of the share price on the May 12, 2017 closing date, thereby pricing the Company shares at $0.47. From an accounting perspective, this amendment, which includes a new basis for determining the Company's value, shows that the Company's recoverable amount has increased since March 31, 2017 in light of the changes in estimates based on these events that occurred during the third quarter of the current fiscal year. Accordingly, if the Arrangement is implemented, the impairment loss previously recognized on exploration and evaluation assets and property, plant and equipment of the Company will have to be reversed subsequent to the second quarter of the current fiscal year.

The Arrangement is subject to the customary conditions for transactions of such nature, which include obtaining the relevant final court and regulatory approvals in Canada, approval by 66 2/3% of Pieridae shareholders and the approval by 66 2/3% of the votes cast by the holders of common shares of the Company present or represented by proxy at the Special and Annual Shareholders' Meeting, which will be convened for the purposes of reviewing the arrangement. The Arrangement and related transactions are also subject to the satisfaction or waiver of additional conditions precedent, including, but not limited to, the continuance of the Company under the *Canada Business Corporations Act*. The transaction is expected to close in fiscal 2017. The Company's management proxy circular, to be sent prior to the holding of the Annual and Special Shareholders' Meeting, will contain other information regarding the transaction.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

5. CASH AND CASH EQUIVALENTS

	As at June 30, 2017 $	**As at December 31, 2016** $
Cash	**4,022,225**	6,022,198
Guaranteed investment certificates (redeemable on demand)	**—**	1,100,000
	4,022,225	7,122,198
Less: Restricted cash equivalents[1]	**630,000**	630,000
	3,392,225	6,492,198
Less: Cash and cash equivalents held for exploration purposes		
Flow-through shares[2]	**2,135,010**	1,308,793
Bourque project[3]	**1,743,341**	4,394,701
Cash deficiency for exploration purposes[4]	**(486,126)**	—
	3,392,225	5,703,494
Cash and cash equivalents	**—**	788,704

[1] As at June 30, 2017 and December 31, 2016, a portion of cash and cash equivalents was pledged as security for the performance bonds issued for total amount of $630,000 *[note 18]*.

[2] 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.

[3] Cash and cash equivalents earmarked for future exploration work on the Bourque project represent the remaining cash as at June 30, 2017 and December 31, 2016 from partner advances which, under the agreements, must be spent on exploration work related to the Bourque project.

[4] As at June 30, 2017, the Company did not have the necessary liquidity to meet its exploration commitments. Receipt of the compensation in the Anticosti matter (see note 7) in the third quarter of the fiscal year will make up for this cash deficiency as at June 30, 2017.

As at June 30, 2017, cash bore interest at rates ranging from 0% to 1.2% [December 31, 2016 – 0% to 1.2%].

6. RECEIVABLES

	As at June 30, 2017 $	As at December 31, 2016 $
Partner	**120,358**	120,358
Associate *[note 16]*	**—**	475
Commodity taxes	**53,755**	661,382
Interest receivable	**—**	2,188
Other	**106,750**	59,510
	280,863	843,913

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.

	Anticosti Hydrocarbons L.P. $	Anticosti Hydrocarbons General Partner Inc. $	Total $
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
Share of net loss for the six-month period ended June 30, 2017	**(38,587)**	**(22,308)**	**(60,895)**
Contributions for the six-month period ended June 30, 2017	**36,786**	**26,443**	**63,229**
Impairment of interest	**(15,916,845)**	**10,118**	**(15,906,727)**
Value of the interest as at June 30, 2017	**20,651,396**	**—**	**20,651,396**

Impairment

On July 24, 2017, the Government of Québec adopted a ministerial order, published in the Gazette officielle du Québec and effective July 28, 2017, prohibiting the exploration and development of oil and gas on Anticosti Island. It also announced the conclusion of agreements with certain companies involved in oil and gas exploration on Anticosti Island, particularly Junex inc. as well as Corridor Resources Inc. and Saint-Aubin E&P (Québec) inc., two of the partners of Anticosti Hydrocarbons L.P.

On August 9, 2017, the Government of Québec and the Company entered into an agreement in principle concerning the cessation of oil and gas exploration and development activities on Anticosti Island. The cessation of work, the end of the exploration program, as well as the termination of the operator contract held by Pétrolia Anticosti inc. were negotiated in return for a $20.5 million financial compensation for the Company, which holds a 21.67% interest in the Anticosti project. Under this agreement, the Government of Québec will obtain the rights to the Company's exploration and evaluation assets on Anticosti Island and will assume all of the Company's liabilities and obligations, including the financial obligations related to the future restoration of these properties, for which a net liability of $151,396 was recorded as at June 30, 2017, consisting of exploration and evaluation assets of $147,411 and a provision for site restoration of $298,807. Also, under this agreement, the Government of Québec undertook to vote, through Ressources Québec, in favour of the proposed arrangement with Pieridae Energy Limited (the "Arrangement") as well as to sign the support and pooling agreement and the same escrow agreement as the other Pétrolia insiders. The agreement in principle entered into is subject to the signing of definitive agreements in the coming weeks.

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 interests in associates relating to the Anticosti project. The Company's management believes the $20,500,000 compensation agreement arising from the negotiations that started in March 2017 to be an indicator of impairment of its interests in associates. As a result, a $15,906,727 impairment loss was recognized to reduce the value of the investment to its recoverable amount, which is its value in use, of $20,651,396 as at June 30, 2017.

Given the recoverable amount of interests in associates is less than their carrying amount, an impairment loss should be recognized against interests in associates.

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Financial compensation to terminate the project	20,500,000
Rights to exploration and evaluation assets of the Anticosti property, acquired by the Government of Québec	(147,411)
Site restoration obligation, belonging to the Company on Anticosti Island, assumed by the Government of Québec	298,807
Recoverable amount	**20,651,396**
Less: Carrying amount of interests in associates, prior to impairment loss	(36,558,123)
Impairment loss	**(15,906,727)**

As a result of the recognition of this impairment loss, management revised the valuation of the deferred tax asset related to the Company's tax loss carryforwards. The deferred tax asset was reduced by an amount of $2,433,622, an asset initially recognized as a reduction of the deferred tax liability, thereby resulting in an additional loss of $2,433,622 for three-month period ended June 30, 2017.

The $20,500,000 compensation to be received in the third quarter of 2017 also removes any uncertainty regarding the going-concern assumption as at June 30, 2017.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended June 30, 2017 and 2016

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, 2016	**75,434**	**225,000**	**319,712**	**52,156**	**322,881**	**186,107**	**1,181,290**
Additions	—	—	**1,311**	—	—	—	**1,311**
Disposals	—	—	—	—	—	—	—
Balance as at June 30, 2017	**75,434**	**225,000**	**321,023**	**52,156**	**322,881**	**186,107**	**1,182,601**
Accumulated depreciation							
Balance as at December 31, 2016	—	**9,374**	**254,578**	**34,424**	**211,586**	**117,310**	**627,272**
Impairment *[note 10]*	**32,142**	**89,481**	**26,659**	**6,989**	**45,052**	**27,849**	**228,172**
Depreciation	—	**11,250**	**6,668**	**2,271**	**9,610**	**5,940**	**35,739**
Balance as at June 30, 2017	**32,142**	**110,105**	**287,905**	**43,684**	**266,248**	**151,099**	**891,183**
Net carrying amount as at December 31, 2016	75,434	215,626	65,134	17,732	111,295	68,797	554,018
Net carrying amount as at June 30, 2017	**43,292**	**114,895**	**33,118**	**8,472**	**56,633**	**35,008**	**291,418**

9. EXPLORATION AND EVALUATION ASSETS

Oil and gas properties

	December 31, 2016 $	Impairment *[note 10]* $	Additions $	June 30, 2017 $
Québec				
Gastonguay	794,683	**(338,614)**	**27,953**	**484,022**
Gaspésia – Edgar – Marcel-Tremblay	515,680	**(219,731)**	**22,678**	**318,627**
Gaspé[1]	533,864	**(227,479)**	**18,912**	**325,297**
Bourque project[1]	123,356	**(52,562)**	**7,650**	**78,444**
Haldimand – Tar Point projects[1]	2,797,910	**(1,214,544)**	**52,987**	**1,636,353**
Matapédia	216,968	**(92,450)**	—	**124,518**
Total oil and gas properties	4,982,461	**(2,145,380)**	**130,180**	**2,967,261**

PÉTROLIA

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended June 30, 2017 and 2016

Exploration expenses

	December 31, 2016 $	Impairment *[note 10]* $	Additions $	June 30, 2017 $
Québec				
Anticosti	260,558	—	**1,567**	**262,125**
Gastonguay	76,900	—	—	**76,900**
Gaspésia – Edgar – Marcel-Tremblay	3,795,750	—	**8,693**	**3,804,443**
Gaspé	3,624,503	—	**12,688**	**3,637,191**
Bourque project	29,645,904	—	**438,705**	**30,084,609**
Haldimand project	29,318,018	—	**70,549**	**29,388,567**
Tar Point project	5,281,210	—	**2,998**	**5,284,208**
Matapédia	1,206,444	—	—	**1,206,444**
	73,209,287	—	**535,200**	**73,744,487**
Deductions				
Government exploration grants, impairment and partner contributions:				
Anticosti	5,847	**108,867**	—	**114,714**
Gastonguay	19,020	**24,663**	—	**43,683**
Gaspésia – Edgar – Marcel-Tremblay	428,740	**1,434,683**	—	**1,863,423**
Gaspé	711,141	**1,242,928**	—	**1,954,069**
Bourque project	15,113,442	**6,197,441**	**391,435**	**21,702,318**
Haldimand project	14,853,647	**6,017,765**	—	**20,871,412**
Tar Point project	1,051,894	**1,802,527**	—	**2,854,421**
Matapédia	658,824	**233,341**	—	**892,165**
	32,842,555	**17,062,215**	**391,435**	**50,296,205**
Revenue from oil reserve evaluation:				
Gaspé				
Haldimand project	367,855	—	—	**367,855**
Total exploration expenses	39,998,877	**(17,062,215)**	**143,765**	**23,080,427**

Summary as at June 30, 2017

	December 31, 2016 $	Impairment *[note 10]* $	Additions $	June 30, 2017 $
Oil and gas properties	4,982,461	**(2,145,380)**	**130,180**	**2,967,261**
Exploration expenses	39,998,877	**(17,062,215)**	**143,765**	**23,080,427**
Exploration and evaluation assets	44,981,338	**(19,207,595)**	**273,945**	**26,047,688**

[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.

10. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND EXPLORATION AND EVALUATION ASSETS

In accordance with the accounting policies adopted by the Company, non-financial assets must be tested for impairment whenever circumstances indicate that the carrying amount may be impaired. Impairment is calculated by measuring the recoverable amount of each asset or cash-generating unit (“CGU”). Where the recoverable amount of the asset or CGU is less than its carrying amount, an impairment loss is recognized.

As at March 31, 2017, management identified an indicator of impairment, namely the signing of a non-binding term sheet on March 29, 2017 with Pieridae Energy Limited, which preceded the closing of the initial agreement on May 15, 2017 *[note 4]*, based on a rate of exchange indicating an observable value lower than the carrying amount of the Company’s net assets. As a result, the Company performed an impairment test by comparing the carrying amount of the Company’s net assets as at March 31, 2017 (excluding deferred taxes on loss carryforwards) to their recoverable amount (excluding any value allocated to unused tax losses). Fair value less costs of disposal was used as the recoverable amount, which was categorized in Level 3 of the fair value hierarchy.

In accordance with the terms set out in the initial agreement entered into on May 15, 2017 with Pieridae Energy Limited *[note 4]*, the recoverable amount of the Company was estimated at $0.38 per outstanding common share of the Company plus the estimated redemption value of the preferred shares issued in connection with the Arrangement. The redemption value of the preferred shares of the Amalgamated Entity is equal to 50% of any amount in cash receivable, prior to December 31, 2018, by the Amalgamated Entity arising from an agreement with the Government of Québec, net of any tax payable by the Amalgamated Entity, in relation to the termination of oil and gas exploration on Anticosti Island.

The key assumptions of the fair value measurement of the Company pertain to the measurement of the fair value of the redemption of the preferred shares that were to be issued in connection with the initial agreement and the value allocated to unused tax losses. A probabilistic method taking into account the uncertainties related to the settlement including certain value realization scenarios regarding the closing of an agreement with the Government of Québec, and a 2.5% discount rate were used in the measurement thereof. The estimation by informed market players of the fair value allocated to the unused tax losses included in the transaction set at $0.38 per share takes into account, in particular, the uncertainty regarding the post-amalgamation eligibility of unused tax losses for the Amalgamated Entity as determined by the tax authorities, the time horizon and the use of unused tax losses within a context of taxable income generated within the new amalgamated entity and a discount rate reflecting the uncertainty regarding the valuation of this unused tax benefit.

Given that the Company's fair value less costs of disposal is lower than the carrying amount net of the Company's net assets, an impairment loss had to be recognized and allocated proportionately to the CGU's long-term assets.

Impairment loss estimate

	$
Fair value	55,705,996
Costs of disposal	(600,000)
	55,105,996
Carrying amount of net assets, prior to impairment loss, as at March 31, 2017	75,169,258
Less: Carrying amount of the deferred tax asset related to tax carryforwards, as at March 31, 2017	(5,745,610)
	69,423,648
Impairment loss recognized in the first quarter	(14,317,652)
Allocation:	
Property, plant and equipment	(228,172)
Exploration and evaluation assets	(19,207,595)
Deferred tax liability	5,118,115
	(14,317,652)

As a result of the recognition of impairment losses on exploration and evaluation assets, management revised the valuation of the deferred tax asset related to the Company's tax loss carryforwards. The deferred tax asset was reduced by $1,832,128, an asset initially recognized as a reduction of the deferred tax liability, thereby triggering an additional loss for the three-month period ended June 30, 2017 of $1,832,128.

As at March 31, 2017, no impairment loss had been allocated to the interests in associates in light of the rights and obligations of each of the parties stipulated in the agreements pertaining to Anticosti Hydrocarbons L.P. The Company's management was of the opinion that the recoverable amount of the investment would exceed the carrying amount of interests in associates. As discussed in note 7 to the financial statements as at June 30, 2017, an impairment loss has been recognized on interests in associates as a result of entering into an agreement with the Government of Québec regarding the Anticosti project in August 2017.

As disclosed in note 4, the signing of the agreement with the Government of Québec in August 2017 concerning the cessation of oil and gas exploration and development activities on Anticosti Island and other events subsequent to June 30, 2017 indicate that the recoverable amount of the Company has increased since March 31, 2017. Accordingly, if the Arrangement is implemented, the impairment loss previously recognized on exploration and evaluation assets and property, plant and equipment of the Company will have to be reversed subsequent to the second quarter of the current fiscal year.

11. TRADE AND OTHER PAYABLES

	As at June 30, 2017 $	**As at December 31, 2016** $
Trade payables and accrued liabilities	**1 150 798**	3 461 589
Salaries, fees, vacation pay and director fees	**290 170**	326 487
Partners	**82 089**	67 211
Advance from an associate *[note 16]*	**195 663**	108 964
	1 718 720	3 964 251

12. 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, 2017 $	**As at December 31, 2016** $
Balance, beginning of period	**1,993,378**	1,881,112
Partner advances	**—**	6,396,630
Partners' share in security deposits *[note 18]*	**—**	(293,820)
Partner contributions for the property	**—**	(12,229)
Partner contributions to exploration work carried out	**(391,435)**	(5,978,315)
Balance, end of period	**1,601,943**	1,993,378

13. PROVISIONS

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 June 30, 2017, the total future estimated amount required to settle obligations related to site restoration, indexed at 2% [December 31, 2016 – 2%], stood at $1,482,851 [December 31, 2016 – $1,464,545]. The total future amount was discounted using a weighted average rate of 2.5% [December 31, 2016 – 2.5%] over a horizon ranging from 2 to 20 years [December 31, 2016 – 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, 2016 – $2,043,960].

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

	As at June 30, 2017 $	**As at December 31, 2016** $
Balance, beginning of period	**1,464,545**	1,373,060
Liabilities incurred	—	100,821
Disposal of interests in the Bourque project	—	(233,747)
Accretion expense	**18,306**	28,321
Change in accounting estimates	—	196,090
Balance, end of period	**1,482,851**	1,464,545

Provision for contingent liability

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

	As at June 30, 2017 $	**As at December 31, 2016** $
Balance, beginning of period	**350,000**	—
Provision made during the period	—	350,000
Payment made during the period	**(350,000)**	—
Balance, end of period	—	350,000

During the year ended December 31, 2016, an amount of $350,000 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. On May 30, 2017, a settlement was reached in this matter, and the Company paid an amount of $350,000 to the service provider. The impact of this dispute on the Company's net loss was 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 was re-invoiced and borne by Anticosti Hydrocarbons L.P., an amount of $350,000 was thus recognized against the advance from Anticosti Hydrocarbons L.P. as at December 31, 2016.

14. SHARE CAPITAL

Authorized

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

	As at June 30, 2017 [6 months]		**As at December 31, 2016** [12 months]	
	Number of shares	**Amount** $	**Number of shares**	**Amount** $
Issued				
Balance, beginning of period	**103,177,460**	**66,892,274**	92,420,195	64,829,868
Share issuance:				
Shares issued	**5,222,223**	**835,556**	10,757,265	2,215,588
Issuance costs		**(79,704)**		(209,551)
Deferred tax related to issuance costs		**21,122**		56,369
Balance, end of period	**108,399,683**	**67,669,248**	103,177,460	66,892,274

During the six-month period ended June 30, 2017, the Company issued 5,222,223 flow-through shares under a private placement for gross proceeds of $940,000. A flow-through share liability amounting to $104,444 was recognized in respect of this placement. Issuance costs of $79,704 were paid in cash and 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:

	As at June 30, 2017 [6 months]		**As at December 31, 2016** [12 months]	
	Number of options	**Weighted average exercise price $** $	**Number of options**	**Weighted average exercise price $** $
Outstanding, beginning of period	**8,880,000**	**0.56**	8,575,000	0.87
Granted	**—**	**—**	2,462,500	0.18
Expired	**(382,500)**	**0.82**	(2,157,500)	1.36
Outstanding, end of period	**8,497,500**	**0.54**	8,880,000	0.56
Exercisable	**6,557,500**	**0.64**	6,766,875	0.65

15. LOSS PER SHARE

Basic loss per share is calculated by dividing net loss for the fiscal period by the weighted average number of common shares outstanding during the period. In calculating diluted loss per share for the periods ended June 30, 2017 and 2016, 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.

Given that both basic loss per share and diluted loss per share were calculated using the net loss for the period as the numerator, no adjustment to loss was necessary.

PÉTROLIA

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended June 30, 2017 and 2016

	As at June 30, 2017 [3 months]	As at June 30, 2016 [3 months]	As at June 30, 2017 [6 months]	As at June 30, 2016 [6 months]
Net loss	**$(12,580,044)**	$(631,901)	**$(29,055,541)**	$(939,736)
Weighted average number of shares – basic	**108,399,683**	92,448,064	**106,206,926**	92,429,536
Dilutive effect of warrants and options	**—**	—	**—**	—
Weighted average number of diluted shares	**108,399,683**	92,448,064	**106,206,926**	92,429,536
Basic net loss per share	**$(0.116)**	$(0.007)	**$(0.274)**	$(0.010)
Diluted net loss per share	**$(0.116)**	$(0.007)	**$(0.274)**	$(0.010)

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.

Transactions with key management personnel

Key management personnel compensation includes the following expenses:

	As at June 30, 2017 [6 months] $	As at June 30, 2016 [6 months] $
Short-term employee benefits:		
Salaries and employee benefits	**79,750**	215,843
Termination benefit	—	150,000
Director fees	**69,083**	83,742
Total short-term employee benefits	**148,833**	449,585
Fees	**182,000**	42,900
Share-based compensation	**5,221**	19,777
Total compensation	**336,054**	512,262

PÉTROLIA

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended June 30, 2017 and 2016

During the periods ended June 30, 2017 and 2016, 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:

	As at June 30, 2017 [6 months] $	**As at June 30, 2016** [6 months] $
Comprehensive loss:		
Administrative expenses	**12,000**	7,800

With Anticosti Hydrocarbons L.P.:

	As at June 30, 2017 [6 months] $	**As at June 30, 2016** [6 months] $
Comprehensive loss:		
Project management	**11,281**	20,116

As at June 30, 2017, Anticosti Hydrocarbons L.P. advanced an amount of $195,663 to the Company [December 31, 2016 – $458,964 offset by a $350,000 provision for a contigent liability borne by Anticosti Hydrocarbon L.P.] to finance the exploration activities for the next few months.

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:

	June 30, 2017			
	Fair value through profit or loss $	**Loans and receivables** $	**Other financial liabilities** $	**Total carrying amount** $
Financial asset				
Cash and cash equivalents[1]	**3,392,225**	**—**	**—**	**3,392,225**
Receivables[2]	**—**	**227,108**	**—**	**227,108**
Restricted cash equivalents[1]	**630,000**	**—**	**—**	**630,000**
	4,022,225	**227,108**	**—**	**4,249,333**
Financial liability				
Trade and other payables	**—**	**—**	**1,718,720**	**1,718,720**
Partners' share in security deposits	**—**	**—**	**293,820**	**293,820**
Bank borrowings	**—**	**—**	**16,876**	**16,876**
	—	**—**	**2,029,416**	**2,029,416**

	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[1]	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

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. During the six-month period ended June 30, 2017, the Company received $940,000 [December 30, 2016 – $2,404,755] in private placements following the issuance of flow-through shares for which it renounced a tax deduction of $104,444 [December 31, 2016 – $199,667]. As at June 30, 2017, the balance of eligible expenses to be incurred amounted to $2,135,010 [December 31, 2016 – $1,308,793], an amount of $1,195,010 is to be incurred by December 31, 2017 and an amount of $940,000 is to be incurred by December 31, 2018.

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.

During the year ended December 31, 2016, security deposits amounting to $600,000 were paid by the Company under performance bonds. Performance bonds amounting to $630,000, expiring in March 2017, were issued by a financial institution to the Ministère des Ressources naturelles to guarantee the completion of certain site closures. These performance bonds were renewed on May 1, 2017 and August 1, 2017 for a three-month period. The performance bonds 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 and that amount is reported in non-current liabilities as it will be recovered by the partners once the security deposits are released by the Ministère des Ressources naturelles.

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

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

	As at June 30, 2017 [6 months] $	**As at June 30, 2016** [6 months] $
Additions to exploration costs	**535,200**	780,235
Non-cash acquisition		
Depreciation of property, plant and equipment	**(26,871)**	(31,497)
Amortization of deferred lease inducements	**3,086**	—
Recovered amounts		
Haldimand project	—	(220,900)
Oil reserve evaluation revenue	—	(29,812)
Change in non-cash working capital items	**2,573,195**	1,529,952
Increase in exploration and evaluation costs, net of recovered amounts	**3,087,743**	2,027,978

Other information:

Interest paid	**235**	317
Interest received	**15,024**	17,894

Cash and cash equivalents comprise:

	As at June 30, 2017 [6 months] $	**As at June 30, 2016** [6 months] $
Cash	**4,022,225**	2,565,454
Guaranteed investment certificates, redeemable on demand	—	1,591,608
Less: Restricted cash equivalents	**(630,000)**	—
	3,392,225	3,927,129