PÉTROLIA

Leader en exploration pétrolière au Québec

# Unaudited Condensed Interim Consolidated Financial Statements
For the periods ended
September 30, 2014 and 2013

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

**NOTICE OF DISCLOSURE OF NON-AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS ENDED SEPTEMBER 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 September 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.

November 26, 2014

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in Canadian dollars)
(Unaudited)

| | As at September 30, 2014 $ | As at December 31, 2013 $ |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents (note 4) | 3,341,469 | 4,082,904 |
| Cash and cash equivalents held for exploration purposes (note 4) | 2,702,243 | 904,737 |
| Accounts receivable (note 5) | 4,304,670 | 4,633,279 |
| Inventory | 969,935 | - |
| Prepaid expenses | 517,390 | 105,287 |
| Short-term investment (note 6) | - | 930,000 |
| | 11,835,707 | 10,656,207 |
| **Non-current** | | |
| Investments in companies (notes 7 and 9) | 35,709,909 | - |
| Property, plant and equipment (note 8) | 538,222 | 735,918 |
| Exploration and evaluation assets (note 9) | 36,629,263 | 41,687,247 |
| | 72,877,394 | 42,423,165 |
| | 84,713,101 | 53,079,372 |
| **LIABILITIES** | | |
| **Current** | | |
| Trade and other payables (note 10) | 3,017,738 | 1,735,527 |
| Bank borrowings (note 11) | 2,978,495 | 2,886,528 |
| Deferred lease inducements | 6,850 | - |
| Liability related to flow-through shares | 488,255 | 212,416 |
| | 6,491,338 | 4,834,471 |
| **Non-current** | | |
| Deferred lease inducements | 38,819 | 66,218 |
| Provision for site restoration (note 12) | 736,377 | 718,180 |
| Deferred income tax liabilities | 7,555,048 | 357,762 |
| | 8,330,244 | 1,142,160 |
| | 14,821,582 | 5,976,631 |
| **EQUITY** | | |
| Share capital (note 13) | 59,220,187 | 54,546,758 |
| Contributed surplus | 5,017,187 | 4,824,472 |
| Retained earnings (deficit) | 5,654,145 | (12,268,489) |
| | 69,891,519 | 47,102,741 |
| | 84,713,101 | 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*
Director

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in Canadian dollars)
(Unaudited)

| For the periods ended | September 30, 2014 (3 months) $ | September 30, 2013 (3 months) $ | September 30, 2014 (9 months) $ | September 30, 2013 (9 months) $ |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Revenue | 3,043 | 2,994 | 53,509 | 9,060 |
| Project management | 92,316 | 3,247 | 284,649 | 49,828 |
| | 95,359 | 6,241 | 338,158 | 58,888 |
| **EXPENSES** | | | | |
| Administrative expenses (Schedule A) | 472,937 | 1,525,889 | 2,409,586 | 3,046,813 |
| Operating expenses (Schedule B) | - | - | - | 212,945 |
| Financial income and expenses (Schedule C) | 56,930 | 3,303 | 160,846 | (1,591) |
| Gain on transfer of certain licences (note 9) | - | - | (27,265,936) | - |
| Share of investment (note 7) | 30,455 | - | 80,301 | - |
| | 560,322 | 1,529,192 | (24,615,203) | 3,258,167 |
| **INCOME (LOSS) BEFORE TAXES** | (464,963) | (1,522,951) | 24,953,361 | (3,199,279) |
| Deferred tax | (166,063) | (317,409) | 7,030,727 | (954,329) |
| **NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD** | (298,900) | (1,205,542) | 17,922,634 | (2,244,950) |
| **BASIC NET EARNINGS (LOSS) PER SHARE (NOTE 15)** | (0.004) | (0.014) | 0.248 | (0.033) |
| **DILUTED NET EARNINGS (LOSS) PER SHARE (NOTE 15)** | (0.004) | (0.014) | 0.247 | (0.033) |
| **WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES** | 72,329,039 | 67,605,204 | 72,329,039 | 67,605,204 |
| **WEIGHTED AVERAGE NUMBER OF DILUTED SHARES** | 72,658,011 | 67,605,204 | 72,658,011 | 67,605,204 |

## 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** | **(7,891,197)** | **48,259,132** |
| Share issuance | 2,093,750 | - | - | 2,093,750 |
| Exercise of share options | 400,000 | (159,999) | - | 240,001 |
| Share-based payments | - | 555,765 | - | 555,765 |
| Broker warrants | | 5,724 | - | 5,724 |
| Issuance costs | (274,741) | - | - | (274,741) |
| Deferred tax related to issuance costs | - | - | - | - |
| Net loss and comprehensive loss | - | - | (2,244,950) | (2,244,950) |
| **Unaudited balance as at September 30, 2013** | **54,462,709** | **4,308,118** | **(10,136,147)** | **48,634,680** |
| Share issuance | - | - | - | - |
| Share-based payments | - | 516,354 | - | 516,354 |
| Issuance costs | (20,456) | - | - | (20,456) |
| Deferred tax related to issuance costs | 104,505 | - | - | 104,505 |
| Net loss and comprehensive loss | - | - | (2,132,342) | (2,132,342) |
| **Audited balance as at December 31, 2013** | **54,546,758** | **4,824,472** | **(12,268,489)** | **47,102,741** |
| Share issuance | 5,064,526 | - | - | 5,064,526 |
| Exercise of share options | 7,500 | - | - | 7,500 |
| Share-based payments | - | 192,715 | - | 192,715 |
| Issuance costs | (565,156) | - | - | (565,156) |
| Deferred tax related to issuance costs | 166,559 | - | - | 166,559 |
| Net income and comprehensive income | - | - | 17,922,634 | 23,256,658 |
| **Unaudited balance as at September 30, 2014** | **59,220,187** | **5,017,187** | **5,654,145** | **75,225,543** |

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

| | For the nine-month periods ended September 30 | |
|---|---|---|
| | 2014 $ | 2013 $ |
| **OPERATING ACTIVITIES** | | |
| Net income | 17,922,634 | (2,244,950) |
| Items not affecting cash: | | |
| Depreciation of property, plant and equipment | 218,066 | 228,195 |
| Amortization of financial expenses | 91,962 | - |
| Deferred tax | 7,030,727 | (954,329) |
| Accretion expense | 18,197 | 32,747 |
| Share-based payments | 192,715 | 503,200 |
| Gain on transfer of assets | - | |
| Amortization of deferred lease inducements | (20,550) | (20,551) |
| Share of investment (notes 7 and 9) | 80,301 | - |
| Non-cash gain on transfer of ownership of certain licences (note 9) | (27,265,936) | - |
| | (1,731,884) | (2,455,688) |
| Net change in non-cash working capital items: | | |
| Accounts receivable | (134,301) | 1,219,393 |
| Prepaid expenses | (412,103) | (36,945) |
| Inventories | (969,935) | - |
| Trade and other payables | (48,936) | (11,326) |
| | (1,565,275) | 1,171,122 |
| **FINANCING ACTIVITIES** | | |
| Share issuance | 5,072,026 | 2,493,750 |
| Share issuance costs | (565,156) | (274,741) |
| Deferred tax related to issuance costs | 166,559 | - |
| Disposal of investment | 930,000 | - |
| | 5,603,429 | 2,219,009 |
| **INVESTING ACTIVITIES** | | |
| Acquisition of oil and gas properties | (147,669) | - |
| Additions to property, plant and equipment | (20,370) | (2,870) |
| Interest equalization payment made to a partner (note 9) | (1,933,333) | - |
| Deposit on exploration costs | - | 2,100,000 |
| Decrease (increase) in deferred exploration costs, net of recovered amounts | 851,173 | (4,973,516) |
| | (1,250,199) | (2,876,386) |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 1,056,071 | (1,941,943) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | 4,987,641 | 6,414,870 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD (note 3)** | 6,043,712 | 4,472,927 |
| **CASH AND CASH EQUIVALENTS COMPRISE:** | | |
| Cash | 789,381 | 2,018,597 |
| Guaranteed investment certificates (redeemable at any time) | 5,254,331 | 2,454,330 |
| | 6,043,712 | 4,472,927 |

## 1. INCORPORATION, GOING CONCERN AND CONDENSED INTERIM CONSOLIDATED INFORMATION

### Incorporation and nature of business

The Company, incorporated under Part 1A of the Québec *Companies Act* and governed by the provisions of the Québec *Business Corporations Act*, is an oil and gas exploration company. Its stock has been listed on the TSX Venture Exchange since February 16, 2005 under the symbol PEA. The Company's head office is located at 305 Charest Blvd.E., 10th Floor, Québec City, Québec 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.

For the nine-month period ended September 30, 2014, the Company recorded a comprehensive income of $23,256,658, and had retained earnings of $10,988,169 as at September 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 September 30, 2014, the Company had positive working capital of $5,344,369, including cash and cash equivalents of $6,043,712. Management considers that these funds will not be sufficient to meet the Company's obligations and expenses projected up to December 31, 2015. Any shortfall could be met in a number of ways in the future, including but not limited to, the issuance of new debt or equity instruments, additional cost-cutting measures 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 September 30, 2014 and for the nine-month periods ended September 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.

These 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 interest is accounted for using the equity method.

## 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following items:

| | As at September 30, 2014 $ | As at December 31, 2013 $ |
|---|---|---|
| Cash | 789,381 | 158,310 |
| Guaranteed investment certificates | 5,254,331 | 4,829,331 |
| | 6,043,712 | 4,987,641 |
| Less: Cash and cash equivalents held for exploration purposes (1) | 2,702,243 | 904,737 |
| Cash and cash equivalents | 3,341,469 | 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 September 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 September 30, 2014 $ | As at December 31, 2013 $ |
|---|---|---|
| Partners | 175,893 | 575,964 |
| Commodity taxes | 21,111 | 154,582 |
| Tax credits receivable | 3,592,833 | 3,848,569 |
| Interest receivable | 36,241 | 15,755 |
| Related companies | 104,029 | - |
| Other | 374,563 | 38,409 |
| | 4,304,670 | 4,633,279 |

As at September 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 September 30, 2014 $ | As at December 31, 2013 $ |
|---|---|---|
| Guaranteed investment certificate, 1.25%, redeemable at any time and maturing in December 2014 (note 17) | - | 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. Unaudited key financial information as at September 30, 2014 is detailed as follows:

| | Anticosti Hydrocarbons L.P. |
|---|---|
| | |
| Current assets | $5,019,635 |
| Non-current assets | $106,056,255 |
| Current liabilities | $156,370 |
| Non-current liabilities | - |
| Revenues | - |
| Net loss for the 9-month period | $(370,566) |
| Net loss for the 3-month period | $(140,540) |
| Pétrolia's share of loss in Anticosti Hydrocarbons L.P. (21.67%) - 9 months | $(80,301) |
| Pétrolia's share of loss in Anticosti Hydrocarbons L.P. (21,67%) - 3 months | $(30,455) |

## 8. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements $ | Office and field IT 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 September 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 | 134,211 | 22,797 | 8,298 | 32,605 | 20,155 | - | 218,066 |
| Balance as at September 30, 2014 | 556,698 | 206,427 | 168,967 | 138,115 | 71,893 | - | 1,142,100 |
| **Net carrying amount as at September 30, 2014** | 20,786 | 114,437 | 28,585 | 184,766 | 114,214 | 75,434 | 538,222 |

## 9. EXPLORATION AND EVALUATION ASSETS

**Oil and gas properties**

| | **December 31, 2013 $** | **Disposals $** | **Additions $** | **September 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 | 978 | - | 3,415,946 |
| Matapédia | 168,717 | - | - | 168,717 |
| Total oil and gas properties | 5,099,729 | 349,897 | 47,918 | 4,797,750 |

**Exploration expenses**

| | December 31, 2013 $ | Disposals $ | Additions $ | September 30, 2014 $ |
|---|---|---|---|---|
| **Québec** | | | | |
| Anticosti | 9,313,657 | 9,313,657 | 63,844 | 63,844 |
| Gastonguay | 75,987 | - | 643 | 76,630 |
| Gaspésia – Edgar – Marcel-Tremblay | 3,792,414 | - | 2,166 | 3,794,580 |
| Gaspé | 2,879,906 | - | 107,958 | 2,987,864 |
| Bourque Project | 21,676,895 | - | 118,808 | 21,795,703 |
| Haldimand Project | 16,208,203 | - | 534,664 | 16,742,867 |
| Projet Tar Point No. 1 | 5,193,540 | - | 18,435 | 5,211,975 |
| Matapédia | 1,164,001 | - | 41,119 | 1,205,120 |
| | 60,304,603 | 9,313,657 | 887,637 | 51,878,583 |
| **Less:** | | | | |
| Exploration subsidies and partner contributions: | | | | |
| Anticosti | 3,878,682 | 3,878,682 | 5,542 | 5,542 |
| Gastonguay | 19,009 | - | 11 | 19,020 |
| Gaspésia – Edgar – Marcel-Tremblay | 428,663 | - | 45 | 428,708 |
| Gaspé | 693,961 | - | 10,498 | 704,459 |
| Bourque Project | 8,817,971 | 4,641 | - | 8,813,331 |
| Haldimand Project | 7,880,368 | - | 189,320 | 8,069,688 |
| Projet Tar Point No. 1 | 1,051,561 | - | 124 | 1,051,685 |
| Matapédia | 651,056 | - | 7,768 | 658,824 |
| | 23,421,271 | 3,883,323 | 213,308 | 19,751,256 |
| Revenue from oil reserve evaluation: | | | | |
| Gaspé | | | | |
| Haldimand Project | 295,814 | - | - | 295,814 |
| Total exploration expenses | 36,587,518 | 5,430,334 | 674,329 | 31,831,513 |

| **Summary as at September 30, 2014** | December 31, 2013 $ | Disposals $ | Additions $ | September 30, 2014 $ |
|---|---|---|---|---|
| Properties | 5,099,729 | 349,897 | 47,918 | 4,797,750 |
| Exploration expenses | 36,587,518 | 5,430,334 | 674,329 | 31,831,513 |
| Exploration and evaluation assets | 41,687,247 | 5,780,231 | 722,247 | 36,629,263 |

(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 (“km$^2$”) 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 km$^2$, with the exception of a 9 km$^2$ 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 September 30, 2014, expenses in the amount of $2,283,013, to be reimbursed by Québénergie, must be incurred for exploration work in the coming periods to comply with the initial contract.

### Haldimand Project

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 13, 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.

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

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) | (80,301) $ |
| Cash amount paid to acquire a total interest of 21.67% | $1,933,333 |
| Value of interest | $43,253,032 |
| Adjustment to eliminate Pétrolia's share (21.7%) in the non-cash gain on transfer of ownership of certain licences | $(7,543,123) |
| Restated value of interest | **$35,709,909** |

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 | $1,013,144 |
| Non-cash gain on the transfer of ownership of certain licences | $34,809,059 |
| Adjustment to eliminate Pétrolia's share (21.7%) in the non-cash gain on transfer of ownership of certain licences | $(7,543,123) |
| Restated non-cash gain on transfer of ownership of certain licences | **$27,265,936** |

During the quarter ended September 30, 2014, the Company revised its calculation of the non-cash gain on the transfer of certain licences, from $34,809,060 to $27,265,936 to adjust for the elimination of Pétrolia′s share of 21.7% in Anticosti Hydrocarbons L.P. As a result of this adjustment, the investment in a company and deferred income tax liabilities decreased by $7,543,123 and $2,209,100, respectively, as at June 30, 2014. The adjustment also led to a $5,334,023 decrease in net loss and comprehensive loss as well as retained earnings for the six-month period ended June 30, 2014 and to a $0.073 decrease in net basic loss per share and net diluted loss per share for the six-month period ended June 30, 2014.

## 10. TRADE AND OTHER PAYABLES

| | **As at September 30, 2014 $** | **As at December 31, 2013 $** |
|---|---|---|
| Trade payables and accrued liabilities | 2,629,252 | 1,151,950 |
| Salaries, vacation pay and director fees | 155,986 | 351,077 |
| Guarantee deposit | 232,500 | 232,500 |
| | 3,017,738 | 1,735,527 |

## 11. BANK BORROWINGS

| | As at September 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 | (20,437) | (112,404) |
| | 2,978,495 | 2,886,528 |

## 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.

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 September 30, 2014 $ | As at December 31, 2013 $ |
|---|---|---|
| Balance, beginning of period | 718,180 | 385,938 |
| Liabilities incurred | - | 291,612 |
| Accretion expense | 18,197 | 40,630 |
| Amount used | - | - |
| Balance, end of period | 736,377 | 718,180 |
| Current portion of liability | - | - |
| | 736,377 | 718,180 |

## 13. SHARE CAPITAL

### Authorized

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

| **Issued:** | **For the nine-month period ended September 30, 2014** | | **For the year ended December 31, 2013 (15 months)** | |
|---|---|---|---|---|
| | 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: | | | | |
| Share issuance | 6,949,323 | 5,064,526 | 3,606,622 | 2,974,107 |
| Share options exercised | 15,000 | 7,500 | 460,000 | 478,600 |
| Deferred taxes | - | - | - | 104,505 |
| Issuance costs | - | (565,196) | - | (388,494) |
| Taxes related to issuance costs | - | 166,599 | | |
| Balance, end of period | 77,616,695 | 59,220,187 | 70,652,372 | 54,546,758 |

### Warrants

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

| | **For the nine-month period ended September 30, 2014** | |
|---|---|---|
| | Number of warrants | Weighted average exercise price $ |
| Balance, beginning of period | 6,651,860 | 1.66 |
| Issued | - | - |
| Exercised | - | - |
| Expired | 291,798 | 1.42 |
| Balance, end of period | 6,360,062 | 1.68 |

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

| | As at September 30, 2014 | |
|---|---|---|
| Expiry date | Number of warrants | Exercise price $ |
| May 15, 2015 | 5,545,776 | 1.78 |
| July 10, 2015 | 100,000 | 0.70 |
| July 10, 2016 | 714,286 | 1.00 |
| | 6,360,062 | 1.68 |

## 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 nine-month period ended September 30, 2014 | | For the nine-month period ended September 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 | 3,706,000 | 1.16 |
| Granted | 405,000 | 0.67 | 3,020,000 | 1.00 |
| Exercised | (15,000) | 0.50 | (460,000) | 0.62 |
| Forfeited | (330,000) | 1.10 | (393,500) | 1.30 |
| Outstanding, end of period | 6,492,500 | 1.01 | 5,872,500 | 1.12 |
| Exercisable | 4,891,888 | 1.03 | 3,456,250 | 1.12 |

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

**Outstanding options**

| Number of options | Exercise price | Remaining life | Expiry date |
|---|---|---|---|
| | $ | Years | |
| 90 000 | 0.89 | 0.4 | February 25, 2015 |
| 647 500 | 0.50 | 1.2 | December 8, 2015 |
| 75 000 | 1.31 | 1.4 | February 25, 2016 |
| 500 000 | 1.69 | 1.6 | May 18, 2016 |
| 1 080 000 | 1.52 | 2.2 | December 4, 2016 |
| 75 000 | 1.51 | 2.4 | February 22, 2017 |
| 2 170 000 | 1.02 | 3.2 | December 10, 2017 |
| 150 000 | 1.14 | 3.4 | February 28, 2018 |
| 250 000 | 0.89 | 3.9 | August 21, 2018 |
| 400 000 | 0.98 | 4.0 | September 14, 2018 |
| 650 000 | 0.67 | 4.2 | December 5, 2018 |
| 405 000 | 0.67 | 4.7 | May 18, 2019 |

During the period, the Company granted stock options whose fair value was calculated using the Black-Scholes option pricing model based on the following assumptions:

| | **May 2014** | **December 2013** | **September 2013** | **August 2013** | **March 2013** |
|---|---|---|---|---|---|
| Exercise price | $0.67 | $0.67 | $0.98 | $0.89 | $1.14 |
| Risk-free interest rate | 1.50% | 1.83% | 2.12% | 2.05% | 1.18% |
| Average expected volatility | 87% | 87% | 92% | 93% | 102% |
| Average expected life (years) | 1-5 | 1-5 | 5 | 5 | 5 |
| Expected dividend yield | Nil | Nil | Nil | Nil | Nil |

The underlying expected volatility was determined by reference to historical data of the Company's shares over a period of five years since the grant date.

The possibility of the exercise price materializing before maturity was taken into account in the pricing model, i.e. that employees will exercise their options nine months after the award.

## 15. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is 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 September 30, 2014 and September 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 (loss) 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 nine-month period ended | |
|---|---|---|---|---|
| | **September 30, 2014** | **September 30, 2013** | **September 30, 2014** | **September 30, 2013** |
| Net income (loss) and comprehensive income (loss) for the period | (298,900) | (1,205,542) | 17,922,634 | (2,244,950) |
| Weighted average number of shares – basic | 72,329,039 | 67,605,204 | 72,329,039 | 67,605,204 |
| Dilutive effect of warrants and options | 328,972 | - | 328,972 | - |
| Weighted average number of diluted shares | 72,658,011 | 67,605,204 | 72,658,011 | 67,605,204 |
| Net earnings (loss) per share – basic | $(0.004) | $(0.014) | $0.248 | $(0.033) |
| Net earnings (loss) per share – diluted | $(0.004) | $(0.014) | $0.247 | $(0.033) |

## 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 nine-month period ended | |
|---|---|---|
| | **September 30, 2014 $** | **September 30, 2013 $** |
| Short-term employee benefits | | |
| Salaries and employee benefits | 809,734 | 784,776 |
| Director fees | 93,700 | 75,850 |
| Total short-term employee benefits | 903,434 | 860,626 |
| Fees | 249,750 | 56,250 |
| Share-based compensation | 192,715 | - |
| Total compensation | 1,345,899 | 916,876 |

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 nine-month period ended | |
|---|---|---|
| | **September 30, 2014** | **September 30, 2013** |
| | **$** | **$** |
| With a company in which a director is a majority shareholder: | | |
| Comprehensive income (loss) | | |
| Other expenses | 22,500 | 2,500 |

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 Québec). The Company received an amount of $3,911,075 after waiving the tax deductions for flow-through investments**.** Eligible expenses in the amounts of $195,318 and $2,506,925 must be incurred by December 31, 2014 and December 31, 2015, respectively. As at September 30, 2014, the balance of eligible expenses to be incurred was $2,702,243 ($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. The Company holds guaranteed investment certificates in the same value.

## SCHEDULES

| | 2014 $ (3 months) | 2013 $ (3 months) | 2014 $ (9 months) | 2013 $ (9 months) |
|---|---|---|---|---|
| **A - ADMINISTRATIVE EXPENSES** | | | | |
| Share-based payments | - | 280,000 | 192,715 | 503,200 |
| Salaries and employee benefits | 249,870 | 563,613 | 938,670 | 1,099,129 |
| Fees | 42,000 | 56,250 | 249,750 | 56,250 |
| Insurance | 13,891 | 13,800 | 41,454 | 40,152 |
| Maintenance and office supplies | 30,900 | 19,430 | 101,987 | 55,872 |
| Board of Director expenses | 58,010 | 38,812 | 140,419 | 104,629 |
| Shareholder information | 6,242 | 9,766 | 88,994 | 75,067 |
| Rent | 25,335 | 36,188 | 98,530 | 107,870 |
| Promotion and entertainment | 20,402 | 225,995 | 91,225 | 378,694 |
| Travel | 25,757 | 32,891 | 133,798 | 106,051 |
| Professional services | 38,169 | 180,120 | 349,546 | 397,144 |
| Tax on capital | - | - | - | 11,748 |
| Telecommunications | 7,615 | 4,476 | 17,229 | 13,198 |
| Depreciation of property, plant and equipment | 18,575 | 26,292 | 80,400 | 78,876 |
| Other expenses | 5,998 | 5,509 | 19,893 | 18,933 |
| Re-invoiced work | (69,827) | - | (135,024) | - |
| | 472,937 | 1,525,889 | 2,409,586 | 3,046,813 |
| **B - OPERATING EXPENSES** | | | | |
| Share-based payments | - | 52,565 | - | 52,565 |
| Salaries and employee benefits | 282,307 | 194,311 | 875,288 | 668,985 |
| Insurance | 381 | 438 | 1,257 | 1,238 |
| Maintenance and office supplies | 9,482 | 10,917 | 32,594 | 42,800 |
| Travel | 10,294 | 9,674 | 48,083 | 29,212 |
| Training | 3,130 | 11,858 | 4,627 | 18,282 |
| Rent | 39,486 | 39,804 | 120,158 | 119,637 |
| Professional services | 8,650 | - | 18,650 | 2,240 |
| Telecommunications | 1,208 | 1,674 | 3,365 | 5,766 |
| Depreciation of property, plant and equipment | 33,954 | 49,890 | 137,665 | 149,319 |
| Other expenses | - | 1,145 | 5,973 | 4,929 |
| Charged to exploration and evaluation assets | (168,701) | (372,276) | (868,625) | (882,028) |
| Re-invoiced work | (220,191) | - | (379,035) | - |
| | - | - | - | 212,945 |
| **C - FINANCIAL INCOME AND EXPENSES** | | | | |
| Interest income | (12,047) | (14,788) | (43,605) | (54,876) |
| Accretion expense | 6,066 | - | 18,197 | 32,747 |
| Bank charges | 2,042 | 835 | 4,459 | 3,282 |
| Amortization of financial expenses | 30,654 | - | 91,962 | - |
| Debt interest | 30,215 | 17,256 | 89,833 | 17,256 |
| | 56,930 | 3,303 | 160,846 | (1,591) |