



**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)**

FOR THE PERIODS ENDED MARCH 31, 2016 AND 2015

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FOR HERE.**

**NOTICE OF DISCLOSURE OF NON-AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIODS ENDED
MARCH 31, 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 March 31, 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.

May 25, 2016



CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[in Canadian dollars]

[unaudited]

	As at March 31, 2016 \$	As at December 31, 2015 \$
ASSETS		
Current		
Cash and cash equivalents <i>[Note 3]</i>	1,310,804	3,321,697
Cash and cash equivalents held for exploration <i>[Note 3]</i>	3,753,002	4,201,075
Accounts receivable <i>[Note 4]</i>	1,223,542	1,735,616
Prepaid expenses	50,627	94,676
Inventories	21,148	42,986
Total current assets	6,359,123	9,396,050
Non-current		
Guarantee deposits <i>[Note 18]</i>	300,000	—
Investments in associates <i>[Note 5]</i>	36,583,849	36,583,849
Property, plant and equipment <i>[Note 6]</i>	429,846	446,417
Exploration and evaluation assets <i>[Note 7]</i>	43,812,530	43,419,895
Total non-current assets	81,126,225	80,450,161
	87,485,348	89,846,211
LIABILITIES AND EQUITY		
Current		
Trade and other payables <i>[Note 8]</i>	2,010,953	3,963,782
Current portion of deferred lease inducements	4,568	11,418
Current portion of bank borrowings <i>[Note 9]</i>	6,650	6,609
Partner advances for planned exploration work <i>[note 10]</i>	1,881,112	1,881,112
Liability related to flow-through shares <i>[note 11]</i>	317,220	363,655
Total current liabilities	4,220,503	6,226,576
Non-current		
Bank borrowings <i>[Note 9]</i>	18,565	20,243
Provision for site restoration <i>[Note 12]</i>	1,381,643	1,373,060
Deferred income tax liabilities	7,825,511	7,879,371
Total non-current liabilities	9,225,719	9,272,674
Total liabilities	13,446,222	15,499,250
Equity		
Share capital <i>[Note 14]</i>	64,829,868	64,829,868
Contributed surplus	5,756,445	5,756,445
Retained earnings	3,452,813	3,760,648
Total equity	74,039,126	74,346,961
	87,485,348	89,846,211

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 March 31

	2016 [3 months] \$	2015 [3 months] \$
		[Restated <i>[Note 13]</i>]
Revenues		
Project management	16,724	98,744
Other income	—	5,212
	16,724	103,956
Expenses		
Administrative expenses <i>[Schedule A]</i>	385,862	414,721
Operating expenses <i>[Schedule B]</i>	—	—
Financial income and expenses <i>[Schedule C]</i>	6,775	1,773
Share of associates <i>[Note 5]</i>	32,217	42,989
	424,854	459,483
Loss before taxes	(408,130)	(355,527)
Deferred tax recovery	(100,295)	(50,004)
Net loss and comprehensive loss	(307,835)	(305,523)
Basic net loss per share <i>[Note 15]</i>	(0.003)	(0.004)
Diluted net loss per share <i>[Note 15]</i>	(0.003)	(0.004)

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	—	22,275	—	22,275
Issuance costs	(151,882)	—	—	(151,882)
Deferred taxes related to issuance costs	40,856	—	—	40,856
Net loss and comprehensive loss	—	—	(305,523)	(305,523)
	1,498,789	22,275	(305,523)	1,215,541
Balance as at March 31, 2015 – [Restated [Note 13]]	60,806,054	5,502,776	5,007,760	71,316,590
Shares issued	4,270,500	—	—	4,270,500
Share-based compensation	—	253,669	—	253,669
Issuance costs	(337,464)	—	—	(337,464)
Deferred taxes related to issuance costs	90,778	—	—	90,778
Net loss and comprehensive loss	—	—	(1,247,112)	(1,247,112)
	4,023,814	253,669	(1,247,112)	3,030,371
Balance as at January 1, 2016	64,829,868	5,756,445	3,760,648	74,346,961
Net loss and comprehensive loss	—	—	(307,835)	(307,835)
	—	—	(307,835)	(307,835)
Balance as at March 31, 2016	64,829,868	5,756,445	3,452,813	74,039,126

See accompanying notes



CONSOLIDATED STATEMENTS OF CASH FLOWS

[in Canadian dollars]

[unaudited]

For the periods ended March 31

	2016 [3 months] \$	2015 [3 months] \$
		[Restated <i>[Note 13]</i>]
OPERATING ACTIVITIES		
Net loss	(307,835)	(305,523)
Items not affecting cash:		
Depreciation of property, plant and equipment	6,332	6,150
Deferred tax recovery	(100,295)	(50,004)
Share-based compensation	—	22,275
Amortization of deferred lease inducements	(6,850)	(6,850)
Gain on disposal of property, plant and equipment	(125)	—
Accretion expense	8,583	8,269
Share of associates	32,217	42,989
	(367,973)	(282,694)
Net change in non-cash operating items <i>[Note 19]</i>		
Accounts receivable	562,801	(641,994)
Prepaid expenses	44,049	412
Inventories	21,838	109,228
Trade and other payables	(842,225)	118,236
	(213,537)	(414,118)
Cash flows related to operating activities	(581,510)	(696,812)
INVESTING ACTIVITIES		
Guarantee deposits	(300,000)	—
Acquisitions of interests in associates	—	(43)
Additions to property, plant and equipment	(6,079)	—
Acquisitions of oil and gas properties, net of recovered amounts	(90,002)	(25,119)
Increase in deferred exploration costs, net of recovered amounts	(1,365,076)	(3,398,555)
Proceeds from disposal of property, plant and equipment	125	—
Contributions to associates	(29,757)	(62,134)
Cash flows related to investing activities	(1,790,789)	(3,485,851)
FINANCING ACTIVITIES		
Shares issued	—	2,182,800
Issuance costs	(85,030)	(151,882)
Repayment of bank borrowings	(1,637)	(1,597)
Cash flows related to financing activities	(86,667)	2,029,321
Net decrease in cash and cash equivalents	(2,458,966)	(2,153,342)
Cash and cash equivalents, beginning of period	7,522,772	5,239,511
Cash and cash equivalents, end of period <i>[Note 19]</i>	5,063,806	3,086,169

See accompanying notes



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended March 31, 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.

Condensed interim consolidated financial information

The financial information as at March 31, 2016 and for the three-month periods ended March 31, 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 three-month periods ended March 31, 2016 and 2015 were approved by the Board of Directors on May 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.



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended March 31, 2016 and 2015

3. CASH AND CASH EQUIVALENTS

	As at March 31, 2016 \$	As at December 31, 2015 \$
Cash	2,882,826	3,850,530
Guaranteed investment certificates (redeemable on demand)	2,180,980	3,672,242
	<u>5,063,806</u>	<u>7,522,772</u>
Less: Cash and cash equivalents held for exploration purposes		
Flow-through shares ¹	1,864,173	2,041,067
Bourque Project ²	1,888,829	2,160,008
	<u>3,753,002</u>	<u>4,201,075</u>
Cash and cash equivalents	<u>1,310,804</u>	<u>3,321,697</u>

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 March 31, 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 March 31, 2016, cash and cash equivalents included guaranteed investment certificates bearing interest at 1.20% maturing on June 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.



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended March 31, 2016 and 2015

4. RECEIVABLES

	As at March 31, 2016 \$	As at December 31, 2015 \$
Partners	268,140	145,312
Associates <i>[Note 16]</i>	298,168	944,309
Commodity taxes	170,656	156,562
Tax credits receivable	160,616	160,616
Interest receivable	1,936	3,622
Other	324,026	325,195
	1,223,542	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%



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED
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For the periods ended March 31, 2016 and 2015

	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 three-month period ended March 31, 2016	(20,924)	(11,293)	(32,217)
Contributions for the three-month period ended March 31, 2016	20,924	11,293	32,217
Value of the interest as at March 31, 2016	36,583,806	43	36,583,849

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 March 31, 2016 \$	As at December 31, 2015 \$
Current assets	1,202,488	2,435,899
Non-current assets	123,715,917	122,770,776
Current liabilities	692,268	1,286,069
Non-current liabilities	22,446	22,308
Partners' equity	124,203,691	123,898,298
Revenues	—	—
Net loss and comprehensive loss	(148,695)	(664,590)
Share of Pétrolia [21.7%]	(32,217)	(143,995)



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended March 31, 2016 and 2015

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 March 31, 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	—	3,651	4,763	2,088	6,956	4,300	21,758
Balance as at March 31, 2016	—	308,335	239,626	60,625	190,719	104,411	903,716
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 March 31, 2016	75,434	34,714	80,087	25,753	132,162	81,696	429,846

7. EXPLORATION AND EVALUATION ASSETS

Oil and gas properties

	December 31, 2015 \$	Transfers \$	Additions \$	March 31, 2016 \$
Québec				
Anticosti ¹	—	—	—	—
Gastonguay	768,263	—	26,420	794,683
Gaspésia – Edgar – Marcel-Tremblay	493,222	—	22,457	515,679
Gaspé ¹	3,534,467	—	41,125	3,575,592
Matapédia	177,746	—	—	177,746
Total oil and gas properties	4,973,698	—	90,002	5,063,700



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
(UNAUDITED)**

For the periods ended March 31, 2016 and 2015

Exploration expenses

	December 31, 2015	Transfers	Additions	March 31, 2016
	\$	\$	\$	\$
Québec				
Anticosti	231,304	—	436	231,740
Gastonguay	76,900	—	—	76,900
Gaspésia – Edgar – Marcel-Tremblay	3,795,750	—	—	3,795,750
Gaspé	3,429,105	—	31,449	3,460,554
Bourque Project	22,806,587	—	21,308	22,827,895
Haldimand Project	28,511,918	—	359,552	28,871,470
Tar Point Project No. 1	5,252,488	—	843	5,253,331
Matapédia	1,205,343	—	—	1,205,343
	<u>65,309,395</u>	<u>—</u>	<u>413,588</u>	<u>65,722,983</u>
	December 31, 2015	Transfers	Additions	March 31, 2016
	\$	\$	\$	\$
Deductions				
Exploration subsidies and partner contributions:				
Anticosti	5,847	—	—	5,847
Gastonguay	19,020	—	—	19,020
Gaspésia – Edgar – Marcel-Tremblay	428,740	—	—	428,740
Gaspé	711,141	—	—	711,141
Bourque Project	9,135,127	—	—	9,135,127
Haldimand Project	14,526,382	—	100,031	14,646,413
Tar Point Project No. 1	1,051,894	—	—	1,051,894
Matapédia	658,824	—	—	658,824
	<u>26,536,975</u>	<u>—</u>	<u>100,031</u>	<u>26,637,006</u>
Revenue from oil reserve evaluation:				
Gaspé				
Haldimand Project	326,223	—	10,924	337,147
Total exploration expenses	<u>38,446,197</u>	<u>—</u>	<u>302,633</u>	<u>38,748,830</u>



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
(UNAUDITED)**

For the periods ended March 31, 2016 and 2015

Summary as at March 31, 2016

	December 31, 2015	Transfers	Additions	March 31, 2016
	\$	\$	\$	\$
Properties	4,973,698	—	90,002	5,063,700
Exploration expenses	38,446,197	—	302,633	38,748,830
Exploration and evaluation assets	43,419,895	—	392,635	43,812,530

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

During the three-month period ended March 31, 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 March 31, 2016	As at December 31, 2015
	\$	\$
Trade payables and accrued liabilities	1,751,600	3,602,372
Salaries, vacation pay and director fees	217,294	300,264
Partners	9,842	31,389
Contributions to associates [Note 16]	32,217	29,757
	2,010,953	3,963,782



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
(UNAUDITED)**

For the periods ended March 31, 2016 and 2015

9. BANK BORROWINGS

	As at March 31, 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.	25,215	26,852
Less current portion	6,650	6,609
	18,565	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 March 31, 2016 [3 months] \$	As at December 31, 2015 [12 months] \$
Balance, beginning of year	1,881,112	—
Partner advances	—	2,268,200
Partner contributions for work carried out during the period	—	(387,088)
Balance, end of year	1,881,112	1,881,112



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended March 31, 2016 and 2015

11. LIABILITY RELATED TO FLOW-THROUGH SHARES

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

	As at March 31, 2016	As at December 31, 2015
	[3 months]	[12 months]
	\$	\$
Balance, beginning of year	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	(46,435)	(503,772)
Balance, end of year	<u>317,220</u>	<u>363,655</u>

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 March 31, 2016, the total future estimated amount required to settle obligations related to site restoration, indexed at 2% [December 31, 2015 – 2%], stood at \$1,381,643 [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].



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
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For the periods ended March 31, 2016 and 2015

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

	As at March 31, 2016 [3 months] \$	As at December 31, 2015 [12 months] \$
Balance, beginning of year	1,373,060	816,220
Liabilities incurred	—	—
Accretion expense	8,583	27,108
Change in accounting estimates	—	529,732
Amount used	—	—
Balance, end of year	1,381,643	1,373,060
Current portion of liability	—	—
	1,381,643	1,373,060

13. DEFERRED TAX

During the quarter ended September 30, 2015, the Company reviewed the calculation of the deferred tax recovery for the first quarter of 2015, adjusting it to \$50,004 from \$142,786. This adjustment resulted in increases in the deferred tax liability by \$92,782 as at March 31, 2015 while the net loss increased and retained earnings decreased by the same amount for the three-month periods ended March 31, 2015. This adjustment also increased net loss per share and net diluted loss per share by \$0.001 for the three-month period ended March 31, 2015.



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
(UNAUDITED)**

For the periods ended March 31, 2016 and 2015

14. SHARE CAPITAL

Authorized

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

	As at March 31, 2016		As at December 31, 2015	
	[3 months]		[12 months]	
	Number of shares	Amount \$	Number of shares	Amount \$
Issued				
Balance, beginning of year	92,420,195	64,829,868	77,616,695	59,307,265
Share issuance:				
Shares issued	—	—	14,803,500	5,880,315
Issuance costs		—		(489,346)
Deferred tax related to issuance costs		—		131,634
Balance, end of year	92,420,195	64,829,868	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.



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED
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The Company's stock options are detailed as follows for the reporting periods presented:

	As at March 31, 2016 [3 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	—	—	1,950,000	0.36
Exercised	—	—	—	—
Forfeited	(465,000)	0.85	(897,500)	0.65
Outstanding, end of period	8,110,000	0.87	8,575,000	0.87
Exercisable	6,528,750	0.98	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 March 31, 2016 and 2015, potential common shares, such as certain options and warrants, were not included as they would have the effect of decreasing the loss per share, which would be antidilutive.

Both basic and diluted loss per share have been calculated using net loss for the period as the numerator, therefore no adjustment to loss was necessary. 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
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For the periods ended March 31, 2016 and 2015

	As at March 31, 2016 [3 months]	As at March 31, 2015 [3 months]
		[Restated <i>[Note 13]</i>]
Net loss	\$(307,835)	\$(305,523)
Weighted average number of shares – basic	92,420,195	77,616,695
Dilutive effect of warrants and options	—	—
Weighted average number of diluted shares	92,420,195	77,616,695
Basic net loss per share	\$(0.003)	\$(0.004)
Diluted net loss per share	\$(0.003)	\$(0.004)

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.



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED
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For the periods ended March 31, 2016 and 2015

Transactions with key management personnel

Key management personnel compensation includes the following expenses:

	As at March 31, 2016 [3 months] \$	As at March 31, 2015 [3 months] \$
Short-term employee benefits:		
Salaries and employee benefits	96,793	371,546
Director fees	37,735	32,250
Total short-term employee benefits	134,528	403,796
Fees	21,450	29,150
Share-based compensation	—	22,275
Total compensation	155,978	455,221

During the periods ended March 31, 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 March 31, 2016 [3 months] \$	As at March 31, 2015 [3 months] \$
Comprehensive loss:		
Other expenses	3,900	5,300



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED
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(UNAUDITED)**

For the periods ended March 31, 2016 and 2015

With an associate:

	As at March 31, 2016 [3 months] \$	As at March 31, 2015 [3 months] \$
Comprehensive loss:		
Project management	10,362	8,281

As at March 31, 2016, an amount of \$298,168 [December 31, 2015 – \$944,309] was receivable from Anticosti Hydrocarbons L.P.

In addition, as at March 31, 2016, a contribution of \$20,924 [December 31, 2015 – \$19,637] was payable to Anticosti Hydrocarbons L.P., while a contribution of \$11,293 [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.



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended March 31, 2016 and 2015

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 March 31, 2016			
	Fair value through profit or loss \$	Loans and receivables \$	Other financial liabilities \$	Total carrying amount \$
Financial asset				
Cash and cash equivalents ¹	5,063,806	—	—	5,063,806
Receivables ²	—	892,270	—	892,270
	<u>5,063,806</u>	<u>892,270</u>	<u>—</u>	<u>5,956,076</u>
Financial liability				
Trade and other payables	—	—	2,001,103	2,001,103
Bank borrowings	—	—	25,215	25,215
	<u>—</u>	<u>—</u>	<u>2,026,318</u>	<u>2,026,318</u>
	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
	<u>7,522,772</u>	<u>1,418,438</u>	<u>—</u>	<u>8,941,210</u>
Financial liability				
Trade and other payables	—	—	3,963,782	3,963,782
Bank borrowings	—	—	26,852	26,852
	<u>—</u>	<u>—</u>	<u>3,990,634</u>	<u>3,990,634</u>

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.



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the periods ended March 31, 2016 and 2015

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 March 31, 2016, the remaining eligible expenses to be incurred totalled \$1,864,173 [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 three-month period ended March 31, 2016, guarantee deposits amounting to \$300,000 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.



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED
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For the periods ended March 31, 2016 and 2015

19. SUPPLEMENTAL CASH FLOW INFORMATION

Items not affecting cash and cash equivalents

	2016 [3 months] \$	2015 [3 months] \$
Receivables related to exploration and evaluation assets	50,727	(133,559)
Trade payables related to exploration and evaluation assets	1,027,142	2,307,631
Additions to property, plant and equipment included under trade payables	892	—
Share issuance costs included in trade payables	85,030	—
Contributions to associates included under other payables	(2,460)	—

Other information

Interest paid	164	204
Interest received	17,979	7,717

Cash and cash equivalents comprise:

	As at March 31, 2016 [3 months] \$	As at March 31, 2015 [3 months] \$
Cash	2,882,826	862,526
Guaranteed investment certificates (redeemable on demand)	2,180,980	2,223,643
	5,063,806	3,086,169



ADMINISTRATIVE AND OPERATING EXPENSES

For the periods ended March 31

	Schedule A	
	2016	2015
	[3 months]	[3 months]
	\$	\$
Administrative expenses		
Share-based compensation	—	22,275
Salaries and employee benefits	226,573	211,422
Fees	21,450	29,150
Insurance	9,885	12,888
Maintenance and office supplies	20,400	22,952
Board of Directors fees	51,283	41,231
Shareholder reporting	6,415	14,626
Rent	14,888	34,562
Amortization of deferred lease inducements	(6,850)	(6,850)
Promotion and entertainment	1,559	7,764
Travel	12,272	12,889
Professional services	81,940	24,912
Telecommunications	5,920	6,117
Depreciation of property, plant and equipment	6,332	6,150
Gain on disposal of property, plant and equipment	(125)	—
Other expenses	18,704	5,177
Total administrative expenses before re-invoicing of expenses	470,646	445,265
Re-invoicing of expenses	(84,784)	(30,544)
	385,862	414,721
		Schedule B
Operating expenses		
Salaries and employee benefits	229,549	528,876
Insurance	462	446
Maintenance and office supplies	853	310
Travel	1,182	3,245
Training	—	12,132
Rent	20,127	39,498
Telecommunications	584	1,042
Depreciation of property, plant and equipment	15,426	18,444
Other expenses	164	204
Total operating expenses before re-invoicing of expenses and transfer to exploration and evaluation assets	268,347	604,197
Re-invoicing of expenses ¹	(106,770)	(98,884)
Transfer to exploration and evaluation assets	(161,577)	(505,313)
	—	—

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



Schedule C

FINANCIAL INCOME AND EXPENSES

For the periods ended March 31

	2016 [3 months] \$	2015 [3 months] \$
Interest income	(6,443)	(7,716)
Bank charges	3,545	1,220
Interest expense	1,090	—
Accretion expense	8,583	8,269
	6,775	1,773