PETROLYMPIC

PETROLYMPIC LTD.

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

(EXPRESSED IN CANADIAN DOLLARS)

AUDITOR'S REPORT

Petrolympic Ltd.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at December 31, 2013	As at December 31, 2012	As at January 1, 2012 (note 19)
ASSETS			
Current assets			
Cash and cash equivalents (note 6)	$ **312,028**	$ 101,411	$ 906,131
Tax credit receivable	**14,767**	11,660	98,171
Amounts receivable and other assets (note 7)	**62,068**	303,580	156,629
Total current assets	**388,863**	416,651	1,160,931
Non-current assets			
Equipment (note 8)	**50,893**	509	727
Reclamation bond	**8,465**	7,919	-
Total assets	$ **448,221**	$ 425,079	$ 1,161,658
EQUITY AND LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities (notes 9 and 17(a)(b))	$ **316,288**	$ 275,932	$ 179,049
Deferred premium on flow-through shares	**-**	13,143	81,050
Loan payable (notes 10 and 17(a)(iv))	**195,735**	-	-
Total current liabilities	**512,023**	289,075	260,099
Non-current liabilities			
Loan payable (notes 10 and 17(a)(iv))	**-**	15,000	-
Total liabilities	**512,023**	304,075	260,099
(Deficiency) equity			
Share capital (note 11)	**6,894,450**	6,792,663	6,595,297
Units to be issued (note 21)	**316,164**	-	-
Reserves	**884,407**	2,260,874	2,370,186
Deficit	**(8,158,823)**	(8,932,533)	(8,063,924)
Total (deficiency) equity	**(63,802)**	121,004	901,559
Total equity and liabilities	$ **448,221**	$ 425,079	$ 1,161,658

The notes to the consolidated financial statements are an integral part of these statements.

Nature of operations and going concern (note 1)
Commitments and contingencies (note 18)
Subsequent events (note 21)

On behalf of the Board:

(Signed) Mendel Ekstein
Director

(Signed) Frank Ricciuti
Director

Petrolympic Ltd.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Year Ended December 31, 2013	2012
Operating expenses		
Exploration and evaluation expenditures (note 15)	**$ 439,351**	$ 665,858
General and administrative (note 16)	**724,731**	517,813
Operating loss	**(1,164,082)**	(1,183,671)
Sale of oil	**13,588**	-
Premium on flow-through shares	**13,143**	81,050
Interest income	**104**	563
Depreciation	**(509)**	(218)
Accretion expense (note 10)	**(26,173)**	-
Net loss before income taxes	**(1,163,929)**	(1,102,276)
Deferred tax recovery	**33,192**	-
Net loss for the year	**(1,130,737)**	(1,102,276)
Other comprehensive loss		
Item that will be reclassified subsequently to income		
Exchange differences on translating foreign operations	**(26,732)**	(5,536)
Net loss and comprehensive loss for the year	**$ (1,157,469)**	$ (1,107,812)
Basic and diluted net loss per share (note 14)	**$ (0.01)**	$ (0.01)
Weighted average number of common shares outstanding (note 14)	**88,016,123**	83,106,941

The notes to the consolidated financial statements are an integral part of these statements.

Petrolympic Ltd.

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended December 31, 2013	Year Ended December 31, 2012
Operating activities		
Net loss for the year	**$ (1,130,737)**	$ (1,102,276)
Adjustment for:		
Depreciation	**6,563**	218
Share-based payment	**480,917**	92,400
Change in unrealized foreign exchange	**(1,076)**	(5,536)
Premium on flow-through shares	**(13,143)**	(81,050)
Accretion expense (note 10)	**26,173**	-
Deferred tax recovery	**(33,192)**	-
Non-cash working capital items:		
Tax credit receivable	**(3,107)**	86,511
Amounts receivable and other assets	**(8,488)**	101,049
Accounts payable and accrued liabilities	**40,356**	96,883
Reclamation bond	**(546)**	(7,919)
Net cash used in operating activities	**(636,280)**	(819,720)
Investing activity		
Purchase of oil and gas equipment	**(56,947)**	-
Net cash used in investing activity	**(56,947)**	-
Financing activities		
Loan payable (notes 10 and 17(a)(iv))	**185,000**	15,000
Net proceeds from private placement (note 11(b)(ii))	**152,680**	-
Units to be issued (note 21)	**316,164**	-
Amount receivable for private placement (note 7 and 11(b)(i))	**250,000**	-
Net cash provided by financing activities	**903,844**	15,000
Net change in cash and cash equivalents	**210,617**	(804,720)
Effect of exchange rate changes on cash and cash equivalents held in foreign currencies	**-**	-
Cash and cash equivalents, beginning of year	**101,411**	906,131
Cash and cash equivalents, end of year	**$ 312,028**	$ 101,411

The notes to the consolidated financial statements are an integral part of these statements.

Petrolympic Ltd.
Consolidated Statements of Changes in Equity (Deficiency)
(Expressed in Canadian Dollars)

			Reserves				
	Share capital	**Units to be issued**	**Contributed surplus** (note 19)	**Warrant reserve** (note 19)	**Other comprehensive income**	**Deficit** (note 19)	**Total**
Balance, December 31, 2011	**$ 6,595,297**	**$ -**	**$ 2,349,664**	**$ -**	**$ 20,522**	**$ (8,063,924)**	**$ 901,559**
Flow-through units issued (note 11(b)(i))	216,857	-	-	-	-	-	216,857
Fair value of warrants issued	(36,143)	-	-	36,143	-	-	-
Common share units issued (note 11(b)(i))	20,000	-	-	-	-	-	20,000
Fair value of warrants issued	(1,667)	-	-	1,667	-	-	-
Cost of issuance	(1,681)	-	-	(319)	-	-	(2,000)
Foreign currency translation adjustment	-	-	-	-	(5,536)	-	(5,536)
Reclassification of expired options	-	-	(233,667)	-	-	233,667	-
Share-based payment (note 12)	-	-	92,400	-	-	-	92,400
Net loss for the year	-	-	-	-	-	(1,102,276)	(1,102,276)
Balance, December 31, 2012	**$ 6,792,663**	**$ -**	**$ 2,208,397**	**$ 37,491**	**$ 14,986**	**$ (8,932,533)**	**$ 121,004**
Common share units issued (note 11(b)(ii))	154,680	-	-	-	-	-	154,680
Fair value of warrants issued	(50,893)	-	-	50,893	-	-	-
Cost of issuance	(2,000)	-	-	-	-	-	(2,000)
Proceeds on private placement closing subsequent to year-end (note 21)	-	316,164	-	-	-	-	316,164
Discount on loan payable, net of taxes (note 10)	-	-	22,902	-	-	-	22,902
Reclassification of expired options	-	-	(1,904,447)	-	-	1,904,447	-
Share-based payment (note 12)	-	-	480,917	-	-	-	480,917
Net loss and comprehensive loss for the year	-	-	-	-	(26,732)	(1,130,737)	(1,157,469)
Balance, December 31, 2013	**$ 6,894,450**	**$ 316,164**	**$ 807,769**	**$ 88,384**	**$ (11,746)**	**$ (8,158,823)**	**$ (63,802)**

The notes to the consolidated financial statements are an integral part of these statements.

1. Nature of operations and going concern

Petrolympic Ltd. (the "Company" or "Petrolympic") was incorporated under the *Business Corporations Act* (Ontario). Petrolympic is an exploration company, engaged in the acquisition, exploration and development of petroleum and natural gas properties. At the date of these consolidated financial statements, the Company has not yet discovered any deposits, nor has it earned any income. The Company’s common shares are listed on the TSX Venture Exchange under the symbol PCQ. The primary office is located at 36 Toronto Street, Suite 1000, Toronto, Ontario, Canada, M5C 2C5. The Company's year end is December 31st.

These consolidated financial statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. In the absence of additional financing or strategic alternatives, these factors cast substantial doubt in the Company's ability to continue as a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities that would be necessary if the Company were unable to continue as a going concern and was required to realize its assets or discharge its obligations in anything other than the ordinary course of operations. These adjustments could be material.

Petrolympic is at an early stage of development and, as is common with many exploration companies, it raises financing for its exploration and acquisition activities in discrete tranches. The Company had a working capital deficit of $123,160 at December 31, 2013 (December 31, 2012 - working capital of $127,576). For the year ended December 31, 2013, the Company had a net loss and comprehensive loss of $1,157,469 (year ended December 31, 2012 - net loss and comprehensive loss of $1,107,812). For the year ended December 31, 2013, the Company had cash inflows of $210,617 (year ended December 31, 2012 - cash outflows of $804,720). These circumstances cast significant doubt as to the Company's ability to continue as a going concern and, accordingly, the ultimate use of accounting principles applicable to a going concern. The Company’s ability to continue as a going concern is dependent upon its obtaining additional financing and eventually achieving profitable production in the future. The Company is currently evaluating various options in order to address its financing needs. There can be no assurance that the Company's financing activities will continue to be successful or sufficient.

2. Significant accounting policies

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee (“IFRIC”), effective for the Company’s reporting for the years ended December 31, 2013 and 2012.

The policies applied in these consolidated financial statements are based on IFRSs issued and outstanding as of April 7, 2013, the date the Board of Directors approved the statements.

(b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments carried at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

In the preparation of these consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of expenses during the year. Actual results could differ from these estimates. Of particular significance are the estimates and assumptions used in the recognition and measurement of items included in note 2*(r)*.

2. Significant accounting policies (continued)

(c) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Petrolympia Inc., Petrolympic USA, Inc. and Oil-lympia Oil and Gas Inc. All intercompany transactions and balances have been eliminated. The financial statements of each subsidiary are consolidated from the date that control commences until the date that control ceases.

(d) Foreign currencies

The functional currency of the Company and its subsidiary Petrolympia Inc. is the Canadian Dollar. The functional currency of the subsidiaries Petrolympia USA, Inc. and Oil-lympia Oil and Gas Inc. is the US dollar. For the purpose of the consolidated financial statements, the results and financial position are expressed in Canadian Dollars.

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At each financial reporting date, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities are recognized in the consolidated statement of loss and comprehensive loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot rate at the date of the initial transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

The financial results and position of the US subsidiaries are translated as follows: (i) assets and liabilities are translated at the period end exchange rates prevailing at the reporting date; and (ii) income and expenses are translated at average exchange rates for the period. Exchange differences arising on translation of the US subsidiaries are recognized in other comprehensive loss. These differences are recognized in loss and comprehensive loss in the period in which the operation is disposed.

(e) Financial assets and liabilities

The Company's financial instruments consist of the following:

Financial assets:	**Classification:**
Cash and cash equivalents	Fair value through profit and loss ("FVTPL")
Reclamation Bond	Loans and receivables
Amounts receivable and other assets	Loans and receivables
Financial liabilities:	**Classification:**
Accounts payable and accrued liabilities	Other financial liabilities
Loan payable	Other financial liabilities

Fair value through profit and loss:

Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management (fair value option), or if they are derivative assets that are not part of an effective and designated hedging relationship. Financial assets classified as FVTPL are measured at fair value, with changes recognized in the consolidated statements of loss and comprehensive loss.

2. Significant accounting policies (continued)

(e) Financial assets and liabilities (continued)

The Company's financial assets classified as FVTPL include cash and cash equivalents. The Company does not currently hold any derivative instruments or apply hedge accounting.

Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Other financial liabilities:

Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the instrument or (where appropriate) a shorter period to the net carrying amount on initial recognition.

Other financial liabilities are de-recognized when the obligations are discharged, cancelled, or expired.

Impairment of financial assets:

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- the likelihood that the borrower will enter bankruptcy or financial re-organization.

Financial instruments recorded at fair value:

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of December 31, 2013 and December 31, 2012, except for cash and cash equivalents, none of the Company's financial instruments are recorded at fair value in the consolidated statements of financial position. Cash and cash equivalents are classified as Level 1.

2. Significant accounting policies (continued)

(f) Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. In addition, long-lived assets that are not amortized are subject to an annual impairment assessment.

(g) Exploration and evaluation expenditures

The Company expenses exploration and evaluation expenditures as incurred. Exploration and evaluation expenditures include acquisition costs of petroleum and natural gas properties, property option payments and evaluation activity. Tax credits related to exploration and evaluation expenditures are netted against the related exploration and evaluation expenditures in the period in which they are recognized (see note 2(q)).

Once a project has been established as commercially viable and technically feasible, related development expenditures are capitalized. This includes costs incurred in preparing the site for extraction activities. Capitalization ceases when the properties are capable of commercial production, with the exception of development costs that give rise to a future benefit.

(h) Finance costs

Costs incurred on the issuance of the Company's equity instruments are charged directly to the respective equity account.

(i) Flow-through shares

The Company, from time to time, finances a potion of its planned exploration and development activities through the issue of flow-through shares. Under the terms of the flow-through agreements, the income tax deductions attributable to the capital expenditures are renounced to the subscribers. The difference between the subscription price of the flow-through shares the common share prices at the date of issuance is initially recognized as a liability on the statement of financial position. Any difference between the liability as a result of the premium paid on the flow-through share and deferred tax liability is recognized in comprehensive loss as a deferred tax expense or recovery.

(j) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of financial position comprise cash at banks and on hand, and guaranteed investment certificates with an original maturity of three months or less, which are readily convertible into a known amount of cash. The Company does not invest in any asset-backed deposits/investments.

2. Significant accounting policies (continued)

(k) Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recognized based on the cost of an item of equipment, less its estimated residual value, over its estimated useful life at the following rates:

Detail	Percentage	Method
Computer equipment	30%	Declining balance
Oil and gas equipment	30%	Declining balance

An asset's residual value, useful life and depreciation method are reviewed on an annual basis and adjusted if appropriate.

(l) Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Company had no material provisions at December 31, 2013 or December 31, 2012.

(m) Share-based payment transactions

The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company. The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

The fair value of share-based payments to non-employees and other share-based payments are based on the fair value of the goods or services received. If the Company cannot estimate reliably the fair value of the goods or services received, the Company is required to measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted at the date the Company receives the goods or services.

2. Significant accounting policies (continued)

(n) Income taxes

Income tax on the profit or loss for the year presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

(o) Restoration, rehabilitation and environmental obligations

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of an oil and gas property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either a unit-of-production or the straight-line method as appropriate under IFRS. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

The Company has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal.

(p) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares.

(q) Refundable tax credit for resources

The Company is eligible for a refundable tax credit for resources for petroleum and natural gas industry companies in relation to eligible expenses incurred in Quebec, Canada. The refundable tax credit for resources represents up to 35% (December 31, 2012 - 35%) of the amount of eligible expenditures incurred. This tax credit is recognized as a credit to eligible exploration and evaluation costs expensed during the year, and when the tax credit's collectability is reasonably assured.

2. Significant accounting policies (continued)

(r) Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the inputs used in accounting for share-based payment transactions in profit or loss; and
- management assumptions of no material restoration, rehabilitation and environmental provision, based on the facts and circumstances that existed during the year.

Critical accounting judgments

The categorization of financial assets and liabilities and functional currency determination is an accounting policy that requires management to make judgments or assessments.

(s) Recent Accounting Pronouncements

Change in accounting policies

(i) IFRS 10 – Consolidated Financial Statements (“IFRS 10”) was issued by the IASB in May 2011. IFRS 10 is a new standard which identifies the concept of control as the determining factor in assessing whether an entity should be included in the consolidated financial statements of the parent company. Control is comprised of three elements: power over an investee; exposure to variable returns from an investee; and the ability to use power to affect the reporting entity’s returns. At January 1, 2013, the Company adopted this pronouncement and there was no material impact on the Company’s consolidated financial statements.

(ii) IFRS 11 – Joint Arrangements ("IFRS 11") was issued by the IASB in May 2011 and will replace IAS 31 - Interest in Joint Ventures and SIC 13 - Jointly Controlled Entities - Non-Monetary Contributions by Venturers. IFRS 11 is a new standard which focuses on classifying joint arrangements by their rights and obligations rather than their legal form. Entities are classified into two groups: joint operations and joint ventures. A joint operation exists when the parties have rights to the assets and obligations for the liabilities of a joint arrangement. A joint venture exists when the parties have rights to the net assets of a joint arrangement. Assets, liabilities, revenues and expenses in a joint operation are accounted for in accordance with the arrangement. At January 1, 2013, the Company adopted this pronouncement and there was no material impact on the Company’s consolidated financial statements.

(iii) IFRS 12 – Disclosure of Interests in Other Entities (“IFRS 12”) was issued by the IASB in May 2011. IFRS 12 is a new standard which provides disclosure requirements for entities reporting interests in other entities, including joint arrangements, special purpose vehicles, and off balance sheet vehicles. At January 1, 2013, the Company adopted this pronouncement and there was no material impact on the Company’s consolidated financial statements.

2. Significant accounting policies (continued)

(s) Recent Accounting Pronouncements (continued)

Change in accounting policies (continued)

(iv) IFRS 13 – Fair Value Measurement (“IFRS 13”) provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy. At January 1, 2013, the Company adopted this pronouncement and there was no material impact on the Company’s consolidated financial statements given the existing asset and liability mix of the Company to which fair value accounting applies.

(v) Amendments to IAS 1 – Presentation of Financial Statements (“IAS 1”) were issued by the IASB in June 2011. The amendments require items presented in the statement of other comprehensive income to be categorized according to whether the items will or will not be reclassified to income at a future date. At January 1, 2013, the Company adopted this pronouncement and there was no material impact on the Company’s consolidated financial statements.

Future accounting changes

The following accounting pronouncements have been released but have not yet been adopted by the Company.

(i) IFRS 9 - Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and will replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted. The Company is currently assessing the impact of this pronouncement.

(ii) IAS 32 - Financial Instruments: Presentation ("IAS 32") was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted. The Company is currently assessing the impact of this pronouncement.

3. Capital risk management

The Company manages its capital to ensure that funds are available or are scheduled to be raised to provide adequate funds to carry out the Company’s defined exploration programs and to meet its ongoing administrative costs. The Company considers its capital to be equity, which comprises share capital, reserves and deficit, which at December 31, 2013, totalled a deficiency of $63,802 (December 31, 2012 - equity of $121,004).

This is achieved by the Board of Directors’ review and acceptance of exploration budgets that are achievable within existing resources and the timely matching and release of the next stage of expenditures with the resources made available from private placements or other fund raisings.

The Company is not subject to any material externally imposed capital requirements or covenants other than the obligation to incur eligible expenditures with respect to the flow-through shares issued (refer to notes 15(a) and 18).

3. Capital risk management (continued)

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate.

There were no changes in the Company's approach to capital management during the year ended December 31, 2013.

4. Financial risk management

(i) Financial risk

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate, foreign currency and commodity and equity price risk). Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

(ii) Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents. Cash and cash equivalents are held with select major Canadian chartered banks, from which management believes the risk of loss to be minimal.

(iii) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if its access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at December 31, 2013, the Company had cash and cash equivalents of $312,028 (December 31, 2012 - $101,411) to settle current liabilities of $512,023 (December 31, 2012 - $289,075). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms except for the loan payable, which was due February 20, 2014 (notes 10 and 21). The Company regularly evaluates its cash position to ensure preservation and security of capital as well as liquidity and the Company's ability to continue as a going concern (see note 1).

(iv) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in guaranteed investment certificates or interest-bearing accounts of major Canadian chartered banks. The Company regularly monitors compliance with its cash management policy.

(b) Foreign currency risk

The Company's functional and reporting currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company is exposed to foreign currency risk with respect to the expenditures incurred by its US subsidiaries.

4. Financial risk management (continued)

(v) Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve month period:

(a) The Company has no debt other than an outstanding loan to an officer of the Company which bears zero interest, except in the case of default (notes 10 and 17(a)(iv)). Sensitivity to a plus or minus one percentage point change in interest rates would not have a material impact on the reported net loss and comprehensive loss. The loan was repaid subsequent to the year ended December 31, 2013 (note 21).

(b) The Company has subsidiaries with balances denominated in US dollars. Sensitivity to a plus or minus five percentage point change in exchange rates would lead to a $88,565 gain/loss in the reported net loss and comprehensive loss for the year ended December 31, 2013.

5. Categories of financial instruments

	As at December 31, 2013	As at December 31, 2012
Financial assets:		
FVTPL		
Cash and cash equivalents	$ 312,028	$ 101,411
Loans and receivables		
Amount receivable for private placement	$ -	$ 250,000
Reclamation bond	$ 8,465	$ 7,919
Financial liabilities:		
Other financial liabilities		
Accounts payable and accrued liabilities	$ 316,288	$ 275,932
Loan payable	$ 195,735	$ 15,000

As at December 31, 2013, the fair value of the Company's financial instruments approximates the carrying value due to the short-term nature of the instruments.

6. Cash and cash equivalents

	As at December 31, 2013	As at December 31, 2012
Cash	**$ 302,028**	$ 91,411
Cash equivalents	**10,000**	10,000
Total	**$ 312,028**	$ 101,411

(Expressed in Canadian Dollars)

7. Amounts receivable and other assets

	As at December 31, 2013	As at December 31, 2012
Sales tax receivable - (Canada)	**$ 28,123**	$ 28,981
Prepaid expenses	**33,945**	24,599
Amount receivable for private placement	**-**	250,000
	$ 62,068	$ 303,580

8. Equipment

Cost

	Oil and gas equipment	Computers	Total
Balance, December 31, 2012	**$ -**	**$ 5,083**	**$ 5,083**
Additions	56,947	-	56,947
Balance, December 31, 2013	**$ 56,947**	**$ 5,083**	**$ 62,030**

Accumulated depreciation

	Oil and gas equipment	Computers	Total
Balance, December 31, 2012	**$ -**	**$ 4,574**	**$ 4,574**
Depreciation	6,054	509	6,563
Balance, December 31, 2013	**$ 6,054**	**$ 5,083**	**$ 11,137**

Carrying amounts

	Oil and gas equipment	Computers	Total
At December 31, 2012	**$ -**	**$ 509**	**$ 509**
At December 31, 2013	**$ 50,893**	**$ -**	**$ 50,893**

9. Accounts payable and accrued liabilities

	As at December 31, 2013	As at December 31, 2012
Trade payables	**$ 168,611**	$ 194,517
Accrued liabilities	**147,677**	81,415
	$ 316,288	$ 275,932

(Expressed in Canadian Dollars)

9. Accounts payable and accrued liabilities (continued)

The following is an aged analysis of the accounts payable and other liabilities:

	As at December 31, 2013	As at December 31, 2012
Less than 1 month	**$ 141,502**	$ 218,730
1 to 3 months	**123,581**	25,182
Greater than 3 months	**18,689**	32,020
	$ 283,772	$ 275,932

10. Loan payable

The Company entered into a financing arrangement (the "Loan") for the purposes of funding exploration on the Chittim Ranch property and increasing its working capital, whereby the Company borrowed $200,000 (the "Principal") from Mendel Ekstein, the Chief Executive Officer ("CEO") and the President of the Company (the "Lender"), for a term of 12 months, which Principal will bear no interest (but will bear interest at a rate of 30% per annum in the case of a default). In connection with the Loan, Petrolympic has entered into a promissory note and other agreements and executed certain documents, including entering into a share pledge agreement (the "Share Pledge Agreement") with the Lender, providing for the pledge by the Company to the Lender of shares in the capital of Petrolympia Inc. and Petrolympic USA, Inc., upon the terms and conditions set out in the Share Pledge Agreement. The Loan had a settlement date of February 20, 2014 and was repaid in January 2014 (note 21).

The loan was measured at $173,975, on a fair value basis, with a discount of $26,025 recognized as an increase in share capital.

11. Share capital

a) Authorized share capital

At December 31, 2013, the authorized share capital consisted of an unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

b) Common shares issued

At December 31, 2013, the issued share capital amounted to $6,894,450.

Issued:

	Number of common shares	Amount
Balance, December 31, 2011	**83,077,195**	**$ 6,595,297**
Private placement (i)	3,619,048	199,047
Costs of issuance	-	(1,681)
Balance, December 31, 2012	86,696,243	$ 6,792,663
Private placement, net of costs (ii)	2,578,000	154,680
Fair value of warrants issued	-	(50,893)
Costs of issuance	-	(2,000)
Balance, December 31, 2013	**89,274,243**	**$ 6,894,450**

11. Share capital (continued)

b) Common shares issued (continued)

(i) On December 28, 2012, the Company completed a private placement of 3,285,715 flow-through units ("FT Units") at a price of $0.07 per FT Unit and 333,333 common share units ("CS Units") at $0.06 per CS Unit for gross proceeds of $250,000 (net proceeds of $248,000 following payment of $2,000 issuance costs). The proceeds from the private placement were received subsequent to December 31, 2012 and are included in amounts receivable and other assets on the consolidated statement of financial position. Each FT Unit consists of one flow-through common share of the Company and one half of one common share purchase warrant ("Warrant") and each CS Unit consists of one common share of the Company and one half of one Warrant. Each Warrant entitles the holder to purchase additional common share at a price of $0.10 for a period of 18 months from the date of closing.

The fair value of the common shares was determined to be $199,047 using the closing trading price on December 28, 2012 of $0.055. The fair value assigned to the warrants was $37,810, estimated using the Black-Scholes option pricing model with the following assumptions: an 18 month expected average life; share price of $0.10; 121.40% volatility; risk free interest rate of 1.13%; and a dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices over the expected life of the options.

The share issue costs of $2,000 were allocated between common shares and warrants as follows: common shares - $1,681; warrants - $319. The remaining $13,143 was determined to be the fair value of the premium on flow-through shares.

(ii) On June 27, 2013, the Company closed the first tranche of its non-brokered private placement ("Private Placement"), pursuant to which it has issued 2,578,000 units of the Company (the "Units") at a price of $0.06 per Unit for aggregate gross proceeds of $154,680. Each Unit consists of one common share of the Company and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one common share ("a "Warrant Share") at a price of $0.10 per Warrant Share for a period of 20 months from the date of issuance (the "Expiry Time"). In the event that the common shares of the Company trade at or above $0.20 for a period of thirty (30) consecutive trading days at any time prior to the Expiry Time, the Company may accelerate the Expiry Time by giving at least thirty (30) days prior written notice (the "Notice") to the warrant holders, and in such a case the Warrants shall expire on the 30th day after the date on which such Notice is delivered by the Company or such later expiry date set out in the Notice.

A value of $51,560 was estimated for the 2,578,000 Warrants on the date of grant using a relative fair value method based on the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 115% using the historical price history of the Company; risk-free interest rate of 1.13%; and an expected average life of 20 months.

Total share issue costs of $2,000 were allocated between common shares and warrants as follows: common shares - $1,333; warrants - $667.

(Expressed in Canadian Dollars)

12. Stock options

The following table reflects the continuity of stock options for the years presented:

	Number of stock options	Weighted average exercise price ($)
Balance, December 31, 2011	8,133,336	0.35
Expired	(1,533,334)	0.19
Granted (i)	1,200,000	0.12
Balance, December 31, 2012	7,800,002	0.34
Expired	(5,850,002)	0.39
Granted (ii)(iii)(iv)(v)	6,450,002	0.12
Balance, December 31, 2013	**8,400,002**	**0.13**

(i) On April 24, 2012, the Company granted 1,200,000 options of the Company at a price of $0.12 per share, expiring April 24, 2017. The fair value of these options at the date of grant was estimated using the Black-Scholes option pricing model with the following assumptions: a five year expected average life; share price of $0.10; 111% volatility; risk-free interest rate of 1.68%; and a dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices over the expected life of the options. The fair value assigned to these options was $92,400 which was expensed to the consolidated statement of loss and comprehensive loss with a corresponding amount allocated to equity settled share-based payment reserve. These options have fully vested.

(ii) On March 25, 2013, the Company granted 3,333,335 options of the Company at a price of $0.10 per share, expiring March 25, 2018. The fair value of these options at the date of grant was estimated using the Black-Scholes option pricing model with the following assumptions: a five year expected average life; share price of $0.07; 119% volatility; risk-free interest rate of 1.32%; and a dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices over the expected life of the options. The fair value assigned to these options was $183,333 which was expensed in the consolidated statement of loss and comprehensive loss with a corresponding amount allocated to equity settled share-based payment reserve. These options have fully vested.

(iii) On June 26, 2013, the Company granted a total of 1,466,667 options to purchase common shares of the Company to directors and an officer at an exercise price of $0.10 per share, expiring on June 26, 2018. The fair value of these options at the date of grant was estimated using the Black-Scholes option pricing model with the following assumptions: a five year expected average life; share price of $0.07; 110% volatility; risk-free interest rate of 1.69%; and a dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices over the expected life of the options. The fair value assigned to these options was $77,734 which was expensed in the consolidated statement of loss and comprehensive loss with a corresponding amount allocated to equity settled share-based payment reserve. These options have fully vested.

(Expressed in Canadian Dollars)

12. Stock options (continued)

(iv) On November 21, 2013, the Company granted a total of 800,000 options to purchase common shares of the Company to directors and an officer at an exercise price of $0.175 per share, expiring on November 21, 2018. The fair value of these options at the date of grant was estimated using the Black-Scholes option pricing model with the following assumptions: a five year expected average life; share price of $0.17; 123% volatility; risk-free interest rate of 1.78%; and a dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices over the expected life of the options. The fair value assigned to these options was $113,600 which was expensed in the consolidated statement of loss and comprehensive loss with a corresponding amount allocated to equity settled share-based payment reserve. These options have fully vested.

(v) On December 9, 2013, the Company granted a total of 850,000 options to purchase common shares of the Company to directors and an officer at an exercise price of $0.15 per share, expiring on December 9, 2018. The fair value of these options at the date of grant was estimated using the Black-Scholes option pricing model with the following assumptions: a five year expected average life; share price of $0.15; 122% volatility; risk-free interest rate of 1.81%; and a dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices over the expected life of the options. The fair value assigned to these options was $106,250 which was expensed in the consolidated statement of loss and comprehensive loss with a corresponding amount allocated to equity settled share-based payment reserve. These options have fully vested.

The following table reflects the actual stock options issued and outstanding as of December 31, 2013:

Expiry date	Exercise price ($)	Weighted average remaining contractual life (years)	Number of options outstanding	Number of options vested (exercisable)
June 17, 2014	0.295	0.46	750,000	750,000
April 23, 2015	0.280	1.31	100,000	100,000
April 24, 2017	0.120	3.32	1,100,000	1,100,000
March 25, 2018	0.100	4.23	3,333,335	3,333,335
June 26, 2018	0.100	4.49	1,466,667	1,466,667
November 21, 2018	0.175	4.89	800,000	800,000
December 9, 2018	0.150	4.94	850,000	850,000
		3.92	**8,400,002**	**8,400,002**

13. Warrants

The following table reflects the continuity of warrants for the periods presented:

	Number of warrants	Grant date fair value ($)
Balance, December 31, 2011	**-**	**-**
Granted (note 11(b)(i))	1,809,524	37,491
Balance, December 31, 2012	**1,809,524**	**37,491**
Granted (note 11(b)(ii))	2,578,000	50,893
Balance, December 31, 2013	**4,387,524**	**88,384**

(Expressed in Canadian Dollars)

13. Warrants (continued)

The following table reflects the actual warrants issued as of December 31, 2013:

Number of warrants outstanding	Grant date fair value ($)	Exercise price ($)	Expiry date
1,809,524	37,491	0.10	June 28, 2014
2,578,000	50,893	0.10	February 27, 2015
4,387,524	**88,384**		

14. Net loss per share

The calculation of basic and diluted loss per share for the year ended December 31, 2013 was based on the loss attributable to common shareholders of $1,130,737 (year ended December 31, 2012 - loss of $1,102,276) and the weighted average number of common shares outstanding of 88,016,123 (year ended December 31, 2012 - 83,077,195). Diluted loss per share did not include the effect of 8,400,002 options outstanding (comparative period - 7,800,002 options outstanding) as they are anti-dilutive. Diluted loss per share did not include the effect of 4,387,524 warrants outstanding (comparative period - 1,809,524 warrants outstanding) as they are anti-dilutive.

15. Exploration and evaluation expenditures

	Year Ended December 31, 2013	Year Ended December 31, 2012
Québec, Canada (a)		
Gross exploration activities		
General exploration costs	**$ 242,326**	$ 277,017
Geophysical	**500**	2,500
Permits and licenses	**29,367**	29,367
	272,193	308,884
Tax credit receivable at 35%	**(20,357)**	(11,660)
Net costs	**$ 251,836**	$ 297,224
Texas, USA (b)		
Development costs	**$ 181,461**	$ 303,634
Depreciation	**6,054**	-
Net costs	**$ 187,515**	$ 303,634
Other, net costs	**$ -**	$ 65,000
Total exploration costs	**$ 439,351**	$ 665,858

(a) Québec Properties, Québec (Canada)

During the year ended December 31, 2013, the Company's share of exploration and evaluation expenditures on its Québec, Canada property interests net of related tax credits of $20,357 (year ended December 31, 2012 - $11,660) amounted to $251,836 (year ended December 31, 2012 - $297,224). Total cumulative exploration and evaluation expenditures incurred on its Québec, Canada property interests to December 31, 2013 amounted to $4,447,713 (December 31, 2012 - $4,195,877).

(Expressed in Canadian Dollars)

15. Exploration and evaluation expenditures (continued)

(a) Québec Properties, Québec (Canada) (continued)

On December 28, 2012, the Company completed a private placement of 3,285,715 flow-through units. As at December 31, 2013, the Company has fulfilled its flow-through obligations with respect to this private placement.

(b) Chittim Ranch Property, Texas (USA)

During the year ended December 31, 2013, the Company's share of exploration and evaluation expenditures on its Chittim Ranch property in Texas (USA) amounted to $187,515 (year ended December 31, 2012 - $303,634). Total cumulative exploration and evaluation expenditures incurred on its Chittim Ranch property to December 31, 2013 amounted to $1,707,704 (December 31, 2012 - $1,520,189).

16. General and administrative

	Year Ended December 31, 2013	2012
Share-based payment (note 12)	**$ 480,917**	$ 92,400
Professional fees	**79,146**	218,699
Management fees	**60,000**	73,083
Administrative and general	**41,697**	37,596
Salaries and benefits	**33,263**	38,493
Investor relations and promotion	**17,574**	38,935
Reporting issuer costs	**12,134**	18,607
	$ 724,731	$ 517,813

17. Related party balances and transactions

Related parties include the Board of Directors, officers, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

As at December 31, 2013, Mendel Ekstein, an officer and director of the Company, controls or indirectly controls 26,030,936 common shares of the Company, or approximately 29% of the total common shares outstanding. As at December 31, 2013, Andreas Jacob, a director of the Company, controls or indirectly controls 11,967,625 common shares of the Company, or approximately 13% of the total common shares outstanding. As at December 31, 2013, the remaining directors and/or officers of the Company collectively control 292,510 common shares of the Company or less than 1% of the total common shares outstanding. To the knowledge of directors and officers of Petrolympic, the remainder of the Company's outstanding common shares are widely held. These holdings can change at any time at the discretion of the owner.

(a) Petrolympic entered into the following transactions with related parties:

	Notes	Year Ended December 31, 2013	2012
Marrelli Support Services Inc. ("Marrelli Support")	(i)	**$ 45,891**	$ 60,416
DSA Corporate Services Inc. ("DSA")	(ii)	**17,459**	25,495
Fogler Rubinoff LLP ("Fogler")	(iii)	**35,048**	22,707
Loan payable - Mendel Ekstein	(iv)	**185,000**	15,000

(Expressed in Canadian Dollars)

17. Related party balances and transactions (continued)

(a) Petrolympic entered into the following transactions with related parties (continued):

(i) For the year ended December 31, 2013, the Company expensed $45,891 (year ended December 31, 2012 - $60,416) to Marrelli Support for the services of Carmelo Marrelli to act as Chief Financial Officer ("CFO") of the Company. In addition, Marrelli Support also provides bookkeeping services to the Company. Carmelo Marrelli is the president of Marrelli Support. The amounts charged by Marrelli Support are based on what Marrelli Support usually charges its regular clients. The Company expects to continue to use Marrelli Support for an indefinite period of time. As at December 31, 2013, Marrelli Support was owed $15,633 (December 31, 2012 - $42,936) and this amount was included in accounts payable and accrued liabilities.

(ii) For the year ended December 31, 2013, the Company expensed $17,459 (year ended December 31, 2012 - $25,495) to DSA for corporate secretarial services. DSA is a private company controlled by Carmelo Marrelli, the CFO of the Company. Carmelo Marrelli is also the corporate secretary and sole director of DSA. The amounts charged by DSA are based on what DSA usually charges its regular clients. The Company expects to continue to use DSA for an indefinite period of time. As at December 31, 2013, DSA was owed $7,960 (December 31, 2012 - $21,155) and this amount was included in accounts payable and accrued liabilities.

(iii) For the year ended December 31, 2013, the Company expensed $35,048 (year ended December 31, 2012 - $22,707) to Fogler for professional services. The amounts charged by Fogler are based on what Fogler usually charges its regular clients. The Company expects to continue to use Fogler for an indefinite period of time. Adam Szweras, the Corporate Secretary of Petrolympic, is a partner at Fogler. As at December 31, 2013, Fogler was owed $25,270 (December 31, 2012 - $9,036).

(iv) During the year ended December 31, 2013, the Company received $185,000 from the President and CEO of the Company, pursuant to a Loan which the Company and the CEO entered into (see note 10). The total Loan balance as of December 31, 2013 amounted to $200,000 (year ended December 31, 2012 - $15,000). In the fourth quarter of fiscal 2012, $15,000 was advanced to the Company by the President and CEO of the Company. Subsequent to the year ended December 31, 2013, the Company repaid the loan in full (see note 21).

(b) Remuneration of directors and key management personnel of the Company was as follows:

	Year Ended December 31, 2013	2012
Salaries and benefits	**$ 81,054**	$ 93,841
Share-based payment	**480,917**	92,400
Total remuneration	**$ 561,971**	$ 186,241

Payments to directors and key management personnel of the Company include certain transactions with related parties in (a) above, and (b) remuneration to Directors and key management personnel of the Company. As at December 31, 2013, directors and key management personnel of the Company were owed $95,742 (December 31, 2012 - $20,248) for remuneration, excluding amounts disclosed in (a) above. The Company is deferring payments to directors and key management personnel until a financing is completed.

The above noted transactions are in the normal course of business and are measured at the exchange amount, as agreed to by the parties, and approved by the Board of Directors in strict adherence to conflict of interest laws and regulations.

(Expressed in Canadian Dollars)

18. Commitments and contingencies

(a) Québec, Canada

In order to maintain its petroleum and natural gas permits in good standing, the Company must pay an annual rent of $0.10 per hectare (changing to $0.50 per hectare starting in 2014) and incur minimum exploration expenditures equivalent to $0.50 per hectare in the first year, increasing by $0.50 per hectare every subsequent year to a maximum of $2.50. After the first five-year period, which will end in September 2014, the Company has the option to renew the permits each year for a maximum of another five years, with the obligation of incurring aggregate minimum annual exploration and rental expenditures of $3.00 per hectare (changing to $5.00 per hectare starting in 2014).

Annual rentals and minimum exploration expenditures are reduced by past expenditures exceeding the minimum amounts due.

The Company's operations are subject to government environmental protection legislation. Environmental consequences are difficult to identify in terms of results, timetable and impact.

At this time, to management's best knowledge, the Company's operations are in compliance with current laws and regulations.

Annual rental and minimum exploration expenditures to keep all permits (100% interest permits plus 30% of permits held by Ressources & Énergie Squatex Inc.) are unknown.

19. Re-statement of opening balances

During the year ended December 31, 2013 certain opening balances were re-classified to reflect the expiry of warrants during the year ended December 31, 2011 and the related income tax recovery. In addition, certain opening balances were re-classified to reflect the expiry of options during the year ended December 31, 2012, and in previous years.

Impact on Consolidated Statements of Financial Position

	As at January 1, 2012	Adjustment	As at January 1, 2012 as restated
Share capital	$ 6,595,297	-	$ 6,595,297
Reserves	3,862,185	(1,491,999)	2,370,186
Deficit	(9,555,923)	1,491,999	(8,063,924)
Total equity	$ 901,559	-	$ 901,559

	As at December 31, 2012	Adjustment	As at December 31, 2012 as restated
Share capital	$ 6,792,663	-	$ 6,792,663
Reserves	3,986,540	(1,725,666)	2,260,874
Deficit	(10,658,199)	1,725,666	(8,932,533)
Total equity	$ 121,004	-	$ 121,004

(Expressed in Canadian Dollars)

20. Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate on the net loss for the years ended December 31, 2013 and 2012 is as follows:

	Year Ended December 31, 2013	Year Ended December 31, 2012
Loss before income taxes	**$ (1,163,929)**	$ (1,102,276)
Combined federal and provincial statutory income tax rate	**26.50 %**	26.50 %
Expected income tax recovery	**$ (308,440)**	$ (292,103)
Share-based compensation and non-deductible expenses	**66,670**	24,688
Share issue costs	**-**	(530)
Effect of higher tax rates in foreign jurisdictions	**(15,730)**	(37,188)
Change in future tax rate and other	**(40,340)**	50,863
Effect of flow-through renunciation	**122,820**	69,286
Effect of premium on flow-through shares	**(3,480)**	(21,478)
Change in tax benefits not recognized	**145,308**	206,462
Income tax expense (recovery)	**$ (33,192)**	$ -

The following table summarizes the components of deferred tax:

	As at December 31, 2013	As at December 31 2012
Deferred income tax assets		
Non-capital losses carried forward	**$ 27,970**	$ -
Deferred income tax liabilities		
Note payable	**$ (27,970)**	$ -

(Expressed in Canadian Dollars)

20. Income Taxes (continued)

Deferred income taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	As at December 31, 2013	As at December 31 2012
Deferred income tax assets		
Non-capital losses carried forward - Canada	**$ 4,083,082**	$ 4,081,522
Non-capital losses carried forward - U.S.	**1,873,820**	93,742
Petroleum and natural gas properties and other	**1,502,520**	3,018,573
Share issue costs deductible	**10,800**	13,600
Property, plant and equipment	**108,450**	2,480

The Company's non-capital loss carry forwards expire as noted in the table below. Share issue and financing costs must be utilized by 2016. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company's non-capital income tax losses will expire as follows:

	Canada
2026	$ 169,260
2027	165,900
2028	1,003,130
2029	613,800
2030	733,130
2031	739,170
2032	530,270
2033	232,630
	$ 4,187,290

21. Subsequent events

Subsequent to the year ended December 31, 2013, the Company repaid the $200,000 loan outstanding to the CEO of the Company.

Subsequent to the year ended December 31, 2013, the Company issued 8,770,666 units of the Company (the "Units") at a price of $0.15 per Unit for aggregate gross proceeds of $1,315,600. Each Unit consists of one common share of the Company (a "Unit Share") and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one common share ("a "Warrant Share") at a price of $0.25 per Warrant Share for a period of 18 months from the date of issuance.

21. Subsequent events (continued)

Compensation options were also issued to certain finders. The finders received 877,066 compensation options ("Compensation Options"), each Compensation Option being exercisable into one Unit within 18 months of closing, at an exercise price of $0.15.

As at December 31, 2013, $316,164 had been advanced to the Company on this private placement as included in Units to be issued on the consolidated statements of financial position as well as the consolidated statements of changes in equity (deficiency).