Petro Viking Energy Inc.

Interim Condensed Consolidated Financial Statements

September 30, 2014

(Unaudited)

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September 30, 2014

NOTICE TO READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Responsibility for interim condensed consolidated financial statements

Petro Viking Energy Inc.'s unaudited interim condensed consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards consistently applied. These unaudited interim condensed consolidated statements are presented on the accrual basis of accounting. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Corporation is responsible for both the integrity and objectivity of the unaudited interim condensed consolidated financial statements, management is satisfied that these unaudited interim condensed consolidated financial statements have been fairly presented.

Auditor involvement

The auditor of Petro Viking Energy Inc. has not performed a review of the unaudited interim condensed consolidated financial statements as at, and for the three and nine month period then ended September 30, 2014 and 2013.

	September 30, 2014	December 31, 2013
	$	**$**
Assets		
Current		
Cash and cash equivalents	140,880	152,041
Accounts receivable (note 5)	301,911	702,969
Prepaid expenses and deposits	73,851	42,155
Total current assets	516,642	897,165
Property and equipment (note 6)	2,820,776	1,250,065
Total assets	**3,337,418**	**2,147,230**
Liabilities		
Current		
Accounts payable and accrued liabilities (note 7)	1,684,633	1,023,212
Notes payable (note 8)	450,000	300,000
Debenture (note 9)	640,000	640,000
Total current liabilities	2,774,633	1,963,212
Decommissioning liabilities (note 10)	5,251,206	4,173,189
Total liabilities	8,025,839	6,136,401
Shareholders' Equity (Deficit)		
Share capital (note 11)	4,525,521	4,525,521
Contributed surplus	1,617,760	1,617,760
Deficit	(10,831,702)	(10,132,452)
Total shareholders' equity (deficit)	(4,688,421)	(3,989,171)
Total liabilities and shareholders' equity (deficit)	**3,337,418**	**2,147,230**

Basis of presentation *(note 2)*
Subsequent events *(note 24)*

Approved on behalf of the Board of Directors

"Irvin Eisler" (signed)
Irvin Eisler

"Lars Glimhagen" (signed)
Lars Glimhagen

The accompanying notes are an integral part of these interim condensed consolidated financial statements (unaudited).
Certain comparative figures have been reclassified to conform with the current period's presentation.

Petro Viking Energy Inc.

Interim Condensed Consolidated Statements of Operations, Loss and Comprehensive Loss

(Unaudited)

	Three months ended September 30, 2014	Three months ended September 30, 2013	**Nine months ended September 30, 2014**	Nine months ended September 30, 2013
	$	**$**	**$**	**$**
Revenue				
Petroleum and natural gas sales, net (note 13)	350,808	225,292	1,050,646	714,528
Loss (gain) on sale of asset	-	-	-	(30,783)
Other income	52	-	140	438
	350,860	**225,292**	**1,050,786**	**684,183**
Expenses				
Operating	304,554	214,920	806,255	590,143
General and administrative (note 17)	148,829	114,489	459,793	458,497
Depletion, depreciation and impairment (note 6)	146,870	63,060	325,130	218,180
Financing costs (note 14)	70,665	37,482	158,858	102,288
	670,918	429,951	**1,750,036**	1,369,108
Net loss and comprehensive loss	**(320,058)**	**(204,659)**	**(699,250)**	(684,925)
Net loss per share (note 15)				
Basic	***(0.01)***	(0.01)	*(0.02)*	(0.02)
Diluted	***(0.01)***	(0.01)	*(0.02)*	(0.02)
Weighted average number of shares (note 15)				
Basic	30,259,707	30,259,707	30,259,707	**30,259,707**
Diluted	30,259,707	30,259,707	30,259,707	**30,259,707**

The accompanying notes are an integral part of these interim condensed consolidated financial statements (unaudited).
Certain comparative figures have been reclassified to conform with the current period's presentation.

Petro Viking Energy Inc.
Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficit)
(Unaudited)

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
	$	**$**
Share capital (note 11)		
Balance, beginning of year		4,525,521
Issued		-
Option value transferred to share capital from contributed surplus		-
Balance end of period	**4,525,521**	**4,525,521**
Contributed surplus		
Balance, beginning of year	1,617,760	746,987
Share-based compensation related to:		
Options granted to directors, officers and consultants	-	-
Option value transferred from contributed surplus to share capital	-	-
Expired warrants	-	870,773
Balance end of period	**1,617,760**	**1,617,760**
Deficit		
Balance, beginning of year	(10,132,452)	(8,532,429)
Net loss and comprehensive loss	(699,250)	(684,925)
Balance, end of period	**(10,831,702)**	**(9,217,354)**
Shareholders' Equity (Deficit)	**(4,688,421)**	**(3,074,073)**

The accompanying notes are an integral part of these interim condensed consolidated financial statements (unaudited).
Certain comparative figures have been reclassified to conform with the current period's presentation.

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
	$	$
Operating		
Net loss and comprehensive loss for the period	(699,250)	(684,925)
Add back (deduct) non-cash items:		
Depletion, depreciation and impairment	325,130	260,510
Accretion on decommissioning liabilities	54,937	36,652
Loss (gain) on sale of asset	-	30,783
Settlement of decommissioning liabilities	(20,579)	(33,252)
Changes in non-cash working capital (note 16)	866,694	110,562
	526,932	**(279,670)**
Financing		
Issue of notes payable (note 8)	150,000	100,000
	150,000	**100,000**
Investing		
Expenditures on property and equipment	(852,182)	(124,573)
Changes in non-cash working capital (note 16)	164,089	74,900
	(688,093)	**(49,673)**
Change in cash	(11,161)	**(229,343)**
Cash, beginning of the year	152,041	368,468
Cash, end of the period	140,880	**139,125**
Supplemental cash flow information		
Interest received	140	438
Interest paid	8,732	65,635
Non-cash transactions		
Expired warrants transferred from warrants to contributed surplus	-	870,773

The accompanying notes are an integral part of these interim condensed consolidated financial statements (unaudited).
Certain comparative figures have been reclassified to conform with the current period's presentation.

1. Corporate information

Petro Viking Energy Inc. ("Petro Viking" or the "Company") is incorporated under the laws of the province of Alberta with shares listed on the TSX Venture Exchange, and is engaged in petroleum and natural gas exploration and development activities in western Canada. The records office and principal address is located at 500, 5940 MacLeod Trail, Calgary, AB T2P 2G4.

On February 28, 2011, the Company completed its "Qualifying Transaction" pursuant to which Deep Creek Oil & Gas Inc. ("Deep Creek") and 1560368 Alberta Ltd., a wholly owned subsidiary of the Company, amalgamated pursuant to the provisions of the Business Corporations Act (Alberta) ("the Transaction"). On March 21, 2011, Deep Creek changed its name to Petro Viking Management Corp.

2. Basis of presentation and statement of compliance

The unaudited interim condensed consolidated financial statements as at September 30, 2014 and for the three and nine months ended September 30, 2014 and September 30, 2013, include the accounts of the Company and its wholly owned subsidiary, Petro Viking Management Corp. ("PVMC"), after the elimination of intercompany transactions and balances.

These unaudited interim condensed consolidated financial statements, including the relevant comparative periods, have been prepared on a going concern basis in accordance with International Accounting Standard No. 34, Interim Financial Reporting ("IAS 34"). The going concern basis assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business. In assessing whether or not there are material uncertainties that may lend doubt as to the ability of the Company to continue as a going concern, management takes into account all available information about the future, which is at least but is not limited to twelve months from the end of the reporting period. Management is aware of the material uncertainties that could cast significant doubt upon the Company's ability to continue as a going concern. As at September 30, 2014, the Company reported a net loss of $699,250 and a negative working capital of $2,257,991. As a result the Company will need to raise additional financing within the next twelve months in order to meet its liabilities as they come due and to continue with its business activities.

The unaudited interim condensed consolidated financial statements note disclosures do not include all of those required by International Financial Reporting Standards ("IFRS") applicable for annual financial statements. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 2013.

These unaudited interim condensed consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with IFRS effective as of September 30, 2013. The unaudited interim condensed consolidated financial statements were authorized by the Board of Directors for issue on December 1, 2014.

3. Significant Accounting Policies and Estimates

The unaudited interim condensed consolidated financial statements follow the same accounting policies as the December 31, 2014 annual audited consolidated financial statements with the exception of the accounting polices noted below that were adopted January 1, 2013.

The preparation of unaudited interim condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of financial statements, and revenues and expenses reported during the period. Actual results could differ from those estimated and the difference could be material. The key sources of estimation uncertainty that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities are disclosed in note 3(v) to the Corporation's audited consolidated financial statements for the year ended December 31, 2013.

As of January 1, 2013, the Corporation adopted the following standards and amendments as issued by the IASB. The adoption of the following standards did not have a material impact on the Corporation's unaudited interim condensed consolidated financial statements.

IFRS 10 "Consolidated Financial Statements"

IFRS 10 replaces Standing Interpretations Committee 12, "Consolidation - Special Purpose Entities" and the consolidation requirements of IAS 27 "Consolidated and Separate Financial Statements". The new standard replaces the existing risk and reward based approaches and establish control as the determining factor when determining whether an interest in another entity should be included in the consolidated financial statements.

IFRS 11 "Joint Arrangements"

IFRS 11 replaces IAS 31 "Interests in Joint Ventures". The new standard focuses on the rights and obligations of an arrangement, rather than its legal form. The standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted.

IFRS 12 "Disclosure of Interests in Other Entities"

IFRS 12 provides comprehensive disclosure requirements on interests in other entities, including joint arrangements, associates, and special purpose entities. The new disclosures are intended to assist financial statement users in evaluating the nature, risks and financial effects of an entity's interest in subsidiaries and joint arrangements.

IFRS 13 "Fair Value Measurement"

IFRS 13 provides a common definition of fair value within IFRS. The new standard provides measurement and disclosure guidance and applies when another IFRS requires or permits an item to be measured at fair value, with limited exceptions.

IFRS 7 "Financial Instruments: Disclosures"

IFRS 7, "Financial Instruments: Disclosures" was amended to develop common disclosure requirements for financial assets and financial liabilities that are offset in the financial statements, or that are subject to enforceable master netting arrangements or similar agreements. The adoption of this amendment had no impact on the Company's financial statements.

3. Significant Accounting Policies and Estimates *(continued from previous page))*

The Company has adopted the amendments to IAS 1, Presentation of Financial Statements, effective January 1, 2013. These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. These changes did not result in any adjustments to net and other comprehensive income or loss.

Accounting standards issued but not yet applied

In May 2013, the IASB issued amendments to IAS 36 "Impairment of Assets" which reduces the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The amendments are required to be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. These amendments will be applied by the Company on January 1, 2014 and the adoption will only impact the Company's disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.

In May 2013, the IASB issued IFRIC 21 "Levies," which was developed by the IFRS Interpretations Committee ("IFRIC"). IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that no liability should be recognized before the specified minimum threshold to trigger that levy is reached. IFRIC 21 is required to be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. IFRIC 21 will be applied by the Company on January 1, 2014 and the adoption may have an impact on the Company's accounting for production and similar taxes, which do not meet the definition of an income tax in IAS 12 "Income Taxes." The Company is currently assessing and quantifying the effect on its financial statements.

IFRS 9 Financial Instruments: Classification and Measurement, as issued reflects the first phase of the IASB's work on the replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 revises the current multiple classification and measurement models for financial assets and liabilities and limits the models to two: amortized cost or fair value. The effective date for this standard is still to be determined. The Company is currently assessing the impact of this standard on its consolidated financial statements.

4. Acquisitions and dispositions

During the period, the Company purchased for cash of $150,000, the oil and natural gas properties principally located in East Central Alberta from the court appointed receiver and manager of a company in receivership. The court approved sale closed on May 30, 2014 with an effective date of February 19, 2014. The property acquisition was accounted for as a business combination under IFRS 3 – "Business Combinations" as the oil and gas assets met the definition of a business. The purchase has been accounted for using the acquisition method and was recorded as follows:

Net assets acquired		
Petroleum properties	$	487,700
Accounts receivable reclassified		(337,700)
		150,000
Total consideration paid	$	150,000

5. Accounts receivable

Significant components of Accounts Receivable	**September 30, 2014**	December 31, 2013
	$	$
Accounts receivable - trade and joint venture	280,752	697,195
GST and HST Receivable	21,159	5,774
	301,911	**702,969**

The Company incurred a bad debt in the amount of $37,529 at June 30, 2014 (2013 - $nil). The bad debt related to amounts receivable from a company that was in receivership and subsequently, Petro Viking acquired the oil properties from the court appointed receiver and manager of that company.

As at September 30, 2014, the Company considers its receivables to be aged as follows:

	September 30, 2014	December 31, 2013
	$	$
Not past due	145,194	119,117
Past due by less than 90 days	39,332	58,925
Past due by more than 90 days	117,385	524,927
Total	**301,911**	**702,969**

6. Property and equipment

Oil and Natural Gas Interests

	September 30, 2014	December 31, 2013
	$	$
Cost or deemed cost		
Balance , beginning of period	7,735,431	7,233,932
Acquisitions	487,700	-
Additions	364,482	138,648
Decommissioning liability revision	1,043,659	362,851
Balance, end of period	**9,631,272**	7,735,431
Depletion, depreciation and impairment losses		
Balance, beginning of period	(6,485,366)	(5,502,246)
For the period	(325,130)	(983,120)
Dispositions	-	-
Balance, end of period	**(6,810,496)**	(6,485,366)
Net book amount, end of period	**2,820,776**	1,250,065

No costs have been excluded from the depletion calculation for the three and nine month periods ended September 30, 2014 or the three and nine month periods ended September 30, 2013. Future development costs at September 30, 2014 and September 30, 2013 was $Nil. There was no impairment for the nine-month period ended September 30, 2014. During the six months ended June 30, 2014, the Company acquired the oil and natural gas assets from the court appointed receiver and manager of a working interest partner in receivership (Note 4).

7. Accounts payable and accrued liabilities

The Company's financial liabilities are comprised of accounts payable, accrued liabilities and notes payable which have expected maturities of less than one year resulting in their current classification on the consolidated statement of financial position. See note 8 for discussion on debentures, which, at December 31, 2012 was classified as a current liability.

Significant components of Accounts Payable and Accrued Liabilities	**September 30, 2014**	December 31, 2013
	$	**$**
Accounts payable - trade and joint venture	1,502,295	896,221
Interest Payable	171,638	81,491
Accrued liabilities	10,700	45,500
	1,684,633	**1,023,212**
Accounts Payable and Accrued Liabilities for:		
Capital	220,461	65,905
Operating	1,464,172	957,307
	1,684,633	**1,023,212**

As at September 30, 2014, the amounts due to related parties are $170,729 (December 31, 2013- $108,456) (note 17).

8. Notes payable

	September 30, 2014	December 31, 2013
	$	$
Balance, beginning of period	300,000	-
Notes issued	150,000	300,000
Balance, end of period (i), (ii), (iii)	**450,000**	**300,000**
Accrued interest, end of period (note 7)	42,454	14,783

(i) The notes are unsecured and are payable on December 31, 2013.

(ii) Notes bear an interest of 10% per annum, compounded monthly. For the three and nine months ended September 30, 2013, interest expense on the notes of $26,608 (2013- 4,967) and $42,454 (2013- $9,202) was recorded (note 14).

(iii) At September 30, 2014, $250,000 of the notes payable is due to a related party *(note 17).*

On September 29, 2014, the Board of Directors of the Company, passed a resolution whereby the Company cancelled the notes payable and combined as part of the debentures with an effective date of October 15, 2014.

9. Debenture

	September 30, 2014	December 31, 2013
	$	$
Balance, beginning of period	640,000	640,000
Balance, end of period (i), (ii), (iv)	**640,000**	**640,000**
Accrued debenture interest, end of period (note 6)	47,693	66,929

(i) On February 1, 2013, the Company has renewed the debentures for a two-year term. The revised maturity date after renewal is January 31, 2015.

(ii) Prior to renewal of the debentures described in 8 (i) above, the debentures had a maturity date of February 28, 2013. Therefore, the debenture is classified as a current liability at December 31, 2012 and as a non-current liability at June 30, 2013

(iii) Prior to renewal, the debentures bore interest at a rate of 8% per annum. The debentures were renewed at a revised interest rate of 10%. For the three and nine months ended September 30, 2013, interest expense on the debentures of $16,131 (2013- $16,162) and $47,693 (2013- $47,868) was recorded (note 14).

(iv) At September 30, 2014 and December 31, 2013, $370,000 of the debenture balance payable is due to related parties (note 17).

Subsequent to the quarter ended September 30, 2014, the Company renegotiated the terms of the debenture and consolidated the notes payable as part of the debenture.

10. Decommissioning liabilities

The following table presents the reconciliation of the carrying amount of the obligation associated with the decommissioning of the Company's property and equipment:

	September 30, 2014	December 31, 2013
	$	$
Balance, beginning of period	4,173,189	3,778,928
Liabilities settled / disposed	(20,579)	(26,065)
Effect of change in estimates	1,043,659	362,851
Accretion (note 14)	54,937	57,475
Balance, end of period	**5,251,206**	**4,173,189**

The following significant assumptions were used to estimate the decommissioning liabilities:

	2014	**2013**
Undiscounted cash flows	5,661,448	4,515,318
Discount rate	1.47%	1.62%

Inflation rate	2.25%	2.25%
Weighted average expected timing of cash flows	5.32 years	4.92 years

(i) Accretion expense is included under financing costs in the consolidated statements of operations, loss and comprehensive loss.

(ii) Discount rate based on Government of Canada marketable bond yields for 3-5 year term.

(iii) Inflation rate is based on Bank of Canada consumer price index.

11. Share capital

a. Authorized

Unlimited number of common shares, without nominal or par value

b. Issued and outstanding common shares

	September 30, 2014		December 31, 2013	
	Number	**Amount**	Number	Amount
		$		$
Balance, beginning of period	30,259,707	4,525,521	30,259,707	4,525,521
Balance, end of period	**30,259,707**	**4,525,521**	**30,259,707**	**4,525,521**

a. Escrow

At June 30, 2014, the Company had nil (2013 – 924,674) common shares subject to an escrow agreement. 924,650 shares were released from escrow during March and September of each year until 2014. The final tranche of 673,500 common shares was released from escrow on March 10, 2014.

12. Share-based compensation

The Company has a stock option plan under which the Board of Directors may grant options to directors, officers, other employees and key consultants. The Company may also grant options to agents.

Under the plan, the number of shares reserved for issuance pursuant to the exercise of all options under the plan may not exceed 10% of the issued and outstanding common shares at any time. The options expire not more than five years from the date of grant (except for 949,000 options issued during 2010, which expire after ten years from the date of grant), or earlier if the individual ceases to be associated with the Company, and vest over terms determined at the time of grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model.

The share based compensation expense at for the three and nine month periods ended September 30, 2014 is $Nil (2013: $Nil) and $Nil (2012: $54,975).

The Company has not granted any options during the three and nine month periods ended September 30, 2014 or the three and nine month periods ended September 30, 2013.

During the year ended December 31, 2012, the Company granted 1,400,000 options, exercisable at $0.10 per option, to its directors, officers and consultants. The options vest immediately upon grant and expire 5 years after grant date.

12. Share-based compensation *(continued from previous page)*

The following tables summarize information about directors, officers and consultants stock options outstanding as at, and for the period ended:

	Nine months ended September 30, 2014		Year ended December 31, 2013	
	Options	**Weighted – average exercise price**	Options	Weighted – average exercise price
		$		$
Opening	2,624,501	0.18	2,624,501	0.18
Forfeited	175,000	0.10		
Closing	**2,449,501**	**0.18**	**2,624,501**	**0.18**

Range of exercise price	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable
$		(years)	$	
0.10	1,225,000	3.05	0.10	1,225,000
0.20	474,501	5.68	0.20	474,501
0.30	650,000	1.42	0.30	650,000
0.35	100,000	7.72	0.35	100,000
	2,449,501	**3.07**	**0.18**	**2,449,501**

The following tables summarize information about agent stock options outstanding as at and for the period ended:

	Nine months ended September 30, 2014		Year ended December 31, 2013	
	Options	**Weighted – average exercise price**	Options	Weighted – average exercise price
		$		$
Opening	**1,011,885**	**0.31**	1,011,885	0.28
Granted	-	-	-	-
Expired	(1,011,885)	0.31	-	-
Closing	**-**	**-**	**1,011,885**	**0.31**

The Company did not grant any options during the three and nine month periods ended September 30, 2014 or the three and nine month periods ended September 30, 2013.

The Black-Scholes pricing model was used to estimate the fair value of options granted during the year ended December 31, 2012, based on the following significant assumptions:

Weighted average fair value per option	$ 0.08
Risk-free interest rate	1.19%
Expected volatility	132%
Dividend yield	0%
Estimated forfeiture rate	0%
Expected life of each option granted	5 years

13. Petroleum and natural gas sales

	Three months ended September 30, 2014	Three months ended September 30, 2013	**Nine months ended September 30, 2014**	Nine months ended September 30, 2013
	$	$	$	$
Petroleum and natural gas sales (gross)	444,663	267,435	1,287,693	843,486
Less: Royalty expense	(93,855)	(42,143)	(237,047)	(128,958)
Petroleum and natural gas sales (net)	**350,808**	**225,292**	**1,050,646**	**714,528**

14. Financing costs

	Three months ended September 30, 2014	Three months ended September 30, 2013	**Nine months ended September 30, 2014**	Nine months ended September 30, 2013
	$	$	$	$
Interest expense on debenture and notes payable	49,520	25,285	103,921	65,636
Accretion on decommissioning liabilities	21,145	12,197	54,937	36,652
	70,665	**37,482**	**158,858**	**102,288**

15. Net loss per share

Basic and diluted loss per common share are calculated as follows:

	Three months ended September 30, 2014	Three months ended September 30, 2013	**Nine months ended September 30, 2014**	Nine months ended September 30, 2013
Net loss and comprehensive loss ($)	(320,058)	(204,659)	(699,250)	(684,925)
Weighted average number of shares (basic)	30,259,707	30,259,707	30,259,707	30,259,707
Weighted average number of shares (diluted)	30,259,707	30,259,707	30,259,707	30,259,707
Loss per share: ($ / common share)				
Basic	***(0.01)***	(0.01)	***(0.02)***	(0.02)
Diluted	***(0.01)***	(0.01)	***(0.02)***	(0.02)

16. Change in non-cash working capital

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
	$	$
Accounts receivable	401,058	(271,017)
Prepaid expenses and deposits	(31,696)	(13,516)
Accounts payable and accrued liabilities	661,421	419,995
Note payable	-	50,000
	1,030,783	**185,462**
Operating	866,694	12,562
Financing	-	50,000
Investing	164,089	122,900
	1,030,783	**185,462**

17. Related party disclosures

Balances between Petro Viking Energy Inc. and its subsidiary, Petro Viking Management Corp., which is a related party, have been eliminated on consolidation and are not disclosed in this note.

Key management personnel compensation:

(Key management personnel are comprised of the Company's directors and officers.)	**Three months ended September 30, 2014**	Three months ended September 30, 2013	**Nine months ended September 30, 2014**	Nine months ended September 30, 2013
	$	$	$	$
Administration and consulting fees	43,450	74,900	133,083	217,018

Other related party transactions are disclosed below, unless they have been disclosed elsewhere in the financial statements.	**Three months ended September 30, 2014**	Three months ended September 30, 2013	**Nine months ended September 30, 2014**	Nine months ended September 30, 2013
	$	$	$	$
Interest expense on the Company's debentures and notes payable, held by a director of the Company, and companies controlled by a director of the Company.	30,205	12,783	53,951	33,844

Amount owing to / from related parties	**September 30, 2014**	December 31, 2013
	$	$
Accounts payable and accrued liabilities for administration and consulting fees, legal fees, and interest payable.	170,729	108,456
Debenture – Principal outstanding.	370,000	370,000
Notes payable– Principal outstanding.	250,000	100,000

18. Determination of fair values

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, notes payable and debentures. These financial instruments are classified as follows:

- Cash and cash equivalents - Fair value through profit or loss – held-for-trading
- Short-term investments - Fair value through profit or loss – held-for-trading
- Accounts Receivable - Loans and receivables
- Accounts payable and accrued liabilities - Other financial liabilities
- Notes payable - Other financial liabilities
- Debentures - Other financial liabilities

The Company is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data.

The fair value of cash and cash equivalents is determined using level 1 inputs as it is determined by amounts held at/lent by financial institutions.

The fair value of debentures and notes payable approximates their carrying value as they bear interest at a rate that is comparable to current market rates. The Company has classified these as Level 2 financial instruments.

The carrying values of accounts receivable, accounts payable and accrued liabilities, approximate their fair values due to their relatively short periods to maturity. The Company has classified these as Level 2 financial instruments.

The fair value of the amounts due to related parties (note 7) is less than carrying value, as the amounts are non-interest bearing. As the amounts have no terms of repayment, the fair value cannot be calculated with any degree of certainty, therefore the Company has classified these as Level 3 financial instruments.

There have been no transfers amongst levels of the hierarchy during the three and nine months ended September 30, 2014 or the three and nine months ended September 30, 2013.

19. Financial risk management

The Company's risk management policies are established by the Board of Directors to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's policy.

The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. Refer to note 22 to the audited consolidated financial statements as at September 30, 2014 and for the year ended December 31, 2013 and 2012 for further information.

20. Capital management

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute its capital expenditure program, which includes expenditures in oil and gas activities which may or may not be successful. Therefore, the Company monitors the level of risk incurred in its capital expenditures to balance the proportion of debt and equity in its capital structure.

The Company considers its capital structure to include shareholders equity and debentures.

The Company monitors capital based on annual funds from operations and capital expenditure budgets, which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors. In order to maintain or adjust the capital structure, from time to time the Company may issue common shares, debt or other securities, sell assets or adjust capital spending to manage current and projected debt levels.

At September 30, 2014, the Company's capital structure was not subject to external restrictions.

The Company anticipates it will continue operations in the foreseeable future and it will have adequate liquidity to fund its financial liabilities through its future cash flows.

21. Operating Leases

Non-cancellable operating lease rentals for a compressor are payable as follows:

	September 30, 2014	December 31, 2012
	$	$
Less than one year	24,000	24,000
Between one and five years	-	-
More than five years	-	-

The table below shows the expense recorded for the period:

	Three months ended September 30, 2014	Three months ended September 30, 2013	**Nine months ended September 30, 2014**	Nine months ended September 30, 2013
	$	$	$	$
Equipment lease rentals for a compressor.	10,080	10,080	30,240	30,240

22. Letters of Credit

	September 30, 2014	December 31, 2013
	$	$
Letter of Credit issued to Saskatchewan Ministry of Energy and Resources under the Saskatchewan License Liability Rating (LLR) Program	74,045	74,045

23. Contingency

A former director of the Company has made a claim for payment of amounts alleged to be owed to him (or a company controlled by him) under a consulting agreement. The claimants commenced an action in the Alberta Court of Queen's Bench on September 27, 2012, seeking judgment against the Company for the principal amount of $54,000, plus unspecified amounts for interest, taxes and costs. The Company denies that there is any amount owing to the claimants, and believes that the claimants were overpaid for services provided under the consulting agreement by an amount of $12,600, improperly invoiced by the claimants. The Company has filed a Statement of Defence and Counterclaim in the action, and intends to vigorously defend the claim.

24. Subsequent Events

The Company has not closed the private placement as of the date of these financial statements.