PetroShale

Calgary • Denver

Consolidated Interim Financial Statements

As at September 30, 2015
and for the three and nine months ended September 30, 2015 and 2014

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited interim consolidated financial statements as at and for the three and nine months ended September 30, 2015.

PetroShale
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CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited)

As at (thousands of Canadian dollars)	NOTE	September 30, 2015	December 31, 2014
ASSETS			
Current assets			
Cash and cash equivalents		$ 858	$ 339
Accounts receivable		5,013	2,743
Prepaid expenses		147	160
		6,018	3,242
Non-current assets			
Restricted cash	9	101	157
Property, plant and equipment	4	115,330	75,036
		115,431	75,193
		$121,449	$ 78,435
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		$ 18,161	$ 19,329
Senior loan	6	26,683	11,363
		44,844	30,692
Non-current liabilities			
Subordinated loan	6	71,053	36,568
Decommissioning obligation	5	682	892
		71,735	37,460
Total liabilities		116,579	68,152
SHAREHOLDERS' EQUITY			
Share capital	7	35,658	35,658
Contributed surplus		3,292	3,111
Deficit		(37,571)	(30,167)
Accumulated other comprehensive income		3,491	1,681
		4,870	10,283
Commitments	9		
		$121,449	$ 78,435

See accompanying notes to the consolidated interim financial statements.

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CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

(thousands of Canadian dollars, except per share amounts)	NOTE	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Revenue					
Oil and natural gas revenue		$ 7,482	$ 2,085	$ 17,358	$ 6,148
Royalties		(1,643)	(442)	(3,841)	(1,362)
		5,839	1,643	13,517	4,786
Realized loss on financial derivatives		-	(26)	-	(53)
Unrealized gain (loss) on financial derivatives		-	83	-	(17)
		-	57	-	(70)
		5,839	1,700	13,517	4,716
Expenses					
Production and operating		1,883	424	4,111	1,188
General and administrative		663	627	1,970	1,851
Exploration and evaluation expense		1	-	4	-
Depletion and depreciation	4	3,697	540	7,857	1,449
Finance		2,583	862	6,798	1,833
Foreign exchange gain		-	(2)	-	-
Share-based compensation	7	54	141	181	419
		8,881	2,592	20,921	6,740
Net loss for the period		(3,042)	(892)	(7,404)	(2,024)
Currency translation adjustment		1,378	511	1,810	410
Comprehensive loss for the period		$(1,664)	$ (381)	$ (5,594)	$(1,614)
Net loss per share, basic and diluted	8	**$ (0.09)**	**$ (0.03)**	**$ (0.22)**	**$ (0.06)**

See accompanying notes to the consolidated interim financial statements.

PetroShale
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CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

For the nine months ended September 30, 2015 and 2014

(Unaudited)

(thousands of Canadian dollars, except share amounts)

	Non Voting Common Shares		Voting Common Shares				Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Contributed Surplus	Deficit	Income	Total
Balances, December 31, 2013	6,700,000	$ -	22,307,574	$ 28,948	$ 2,587	$ (25,113)	$ 954	$ 7,376
Share-based compensation	-	-	-	-	419	-	-	419
Issuance of common shares for cash, net	-	-	5,000,000	6,442	-	-	-	6,442
Issuance of common shares for acquisition	-	-	200,000	268	-	-	-	268
Net loss for the period	-	-	-	-	-	(2,024)	-	(2,024)
Other comprehensive income for the period	-	-	-	-	-	-	410	410
Balances, September 30, 2014	6,700,000	$ -	27,507,574	$ 35,658	$ 3,006	$ (27,137)	$ 1,364	$ 12,891
Balances, December 31, 2014	6,700,000	$ -	27,507,574	$ 35,658	$ 3,111	$ (30,167)	$ 1,681	$ 10,283
Share-based compensation	-	-	-	-	181	-	-	181
Net loss for the period	-	-	-	-	-	(7,404)	-	(7,404)
Other comprehensive income for the period	-	-	-	-	-	-	1,810	1,810
Balances, September 30, 2015	6,700,000	$ -	27,507,574	$ 35,658	$ 3,292	$ (37,571)	$ 3,491	$ 4,870

See accompanying notes to the consolidated interim financial statements

PetroShale
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CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)

(thousands of Canadian dollars)	Nine months ended September 30, 2015	2014
Operating Activities		
Net loss for the period	$ (7,404)	$ (2,024)
Items not affecting cash:		
Depletion and depreciation	7,857	1,449
Accretion of decommissioning obligation	5	6
Amortization of loan fees	788	365
Unrealized loss on financial derivatives	-	17
Share-based compensation	181	419
Decommissioning expenditures	(2)	(84)
Change in non-cash working capital (note 10)	(715)	(264)
	710	(116)
Investing activities		
Acquisition of property, plant and equipment	(16,595)	(29,208)
Additions to property, plant and equipment	(15,831)	(15,507)
Proceeds from disposition of property, plant and equipment	1,240	-
Additions to exploration and evaluation assets	-	(59)
Change in non-cash working capital (note 10)	(13,828)	8,234
	(45,014)	(36,540)
Financing activities		
Proceeds from subordinated loan, net	26,303	31,407
Proceeds from senior loan, net	13,585	2,110
Proceeds from share issuance, net	-	6,442
Repayment of note payable	-	(2,296)
Restricted cash	-	(82)
Change in non-cash working capital (note 10)	4,313	-
	44,201	37,581
Changes in cash and cash equivalents	(103)	925
Effect of foreign exchange rates	622	-
Cash and cash equivalents, beginning of period	339	1,312
Cash and cash equivalents, end of period	$ 858	$ 2,237

See accompanying notes to the consolidated interim financial statements.

1. BUSINESS AND NATURE OF OPERATIONS

PetroShale Inc. (the "Company") is an oil company engaged in the acquisition, development and consolidation of interests in the North Dakota Bakken.

The Company's head office is located at Suite 3900, 350-7th Avenue SW, Calgary, Alberta.

2. BASIS OF PREPARATION

These consolidated interim financial statements and the notes thereto should be read in conjunction with the Company's audited consolidated financial statements as at and for the year ended December 31, 2014, and do not include all of the information required for full annual financial statements.

These consolidated interim financial statements are unaudited and have been prepared in accordance with IAS 34 Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The accounting policies applied for the consolidated interim financial statements as at and for the three and nine months ended September 30, 2015 are consistent with those applied for the financial statements as at and for the most recent audited period.

These financial statements have been prepared using the historical cost basis, except for financial derivative instruments which are measured at fair value.

The Company's reporting and measurement currency is the Canadian dollar. The functional currency of the Company's US subsidiary is the US dollar, and its results and balance sheet items are translated to Canadian dollars for purposes of these consolidated financial statements, in accordance with the Company's foreign currency translation accounting policy.

These consolidated interim financial statements were approved by the Company's Board of Directors on November 12, 2015.

IFRS 9 - "Financial Instruments", is the result of the first phase of the IASB's project to replace IAS 39 - "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The standard will come into effect on January 1, 2018 with early adoption permitted. The extent of the impact of the adoption of IFRS 9 has not yet been determined.

IFRS 11 – "Accounting for Acquisitions of Interests in Joint Operations" has been amended to provide guidance on accounting for acquisitions of an interest in a joint operation that constitutes a business. IFRS 11 is effective for annual periods beginning on or after January 1, 2016 with early adoption permitted. The impact of this amended accounting standard has not yet been determined.

IFRS 15 – "Revenue from Contracts with Customers" was issued in May 2014 to replace IAS11 – "Construction Contracts" and IAS 18 – "Revenue" and related interpretive guidance. IFRS 15 provides a single, principles based model to be applied to all contracts with customers as well as new disclosure requirements with the

objective of a more structured approach, improving comparability across entities and industries. Under IFRS 15, an entity will recognize revenue at the amount to which it expects to be entitled in exchange for goods or services on their transfer. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted and is to be applied retrospectively. The extent of the impact of the adoption of IFRS 15 on the Company has not yet been determined.

3. ACQUISITIONS

During the nine months ended September 30, 2015, through various transactions, the Company purchased oil and gas leases in its focus area in North Dakota. This represents various working interests in potential drilling units with associated proved undeveloped and probable reserves. The Company paid an aggregate consideration of approximately US$6.5 million for these leases, funded through its credit facilities and proceeds from sale of property, plant and equipment. There were no assumptions of liabilities associated with these purchases.

Further, the Company acquired certain leases with associated proved undeveloped and probable reserves and oil and gas producing properties during the third quarter of 2015. The Company has treated the transaction as a business combination and has accounted for it using the acquisition method to reflect the fair value of the assets and liabilities assumed. The decommissioning obligation was determined using the fair value as of the respective acquisition date of the Company's estimated timing and costs to remediate, reclaim and abandon the related wells and production infrastructure. Results of operations from the assets acquired were included in the financial statements beginning on the closing date of the transactions. The total purchase price of US$6.6 million was settled with cash funded through the Company's credit facilities.

The aggregate purchase price was allocated as follows:

CONSIDERATION (US$6,600)	$	8,580
NET ASSETS ACQUIRED AT FAIR VALUE		
Developed and producing assets	$	12,854
Accounts receivable		368
Accounts payable		(4,579)
Decommissioning obligation		(63)
	$	8,580

The following reflects selected pro forma financial information for the nine months ended September 30, 2015 as if the acquisition had occurred on January 1, 2015 instead of the closing date of the transaction:

	Nine Months Ended September 30, 2015
Oil and natural gas revenue, net of royalties	$ 925
Production and operating	(227)
Depletion and depreciation	(518)
Finance	(640)
	(460)
Net loss for the period	(7,404)
Adjusted net loss for the period	$ (7,864)
Adjusted basic and diluted net loss per share	$ (0.23)

4. PROPERTY, PLANT AND EQUIPMENT

	Other	Developed and Producing Assets	Total
Balance as at December 31, 2013	$ 34	$ 10,297	$ 10,331
Acquisitions	-	36,248	36,248
Additions	30	28,047	28,077
Impairment	-	(906)	(906)
Depletion and depreciation	(11)	(2,396)	(2,407)
Effect of foreign exchange rate	4	3,689	3,693
Balance as at December 31, 2014	57	74,979	75,036
Acquisitions	-	20,869	20,869
Additions	-	15,924	15,924
Dispositions	-	(1,570)	(1,570)
Depletion and depreciation	(14)	(7,843)	(7,857)
Effect of foreign exchange rate	8	12,920	12,928
Balance as at September 30, 2015	$ 51	$ 115,279	$ 115,330

Depletion, Depreciation, and Future Development Costs

For the nine months ended September 30, 2015 and 2014, the Company recorded $7,857,000 and $1,449,000, respectively, of depletion and depreciation expense, which reflected an estimated US$137.3 million and US$66.0 million, respectively of future development costs associated with proven plus probable reserves.

Impairment Charges

At December 31, 2014, the Company determined that indicators of impairment existed for all of its CGUs due to the decline in the current and forward commodity prices for oil and natural gas. The Company performed an impairment test on each of its CGUs as at December 31, 2014 using a discount rate of 10 percent on its U.S. CGUs and 15 percent on its Canadian non-core CGU and future commodity price estimates applicable at

the time (see Note 8 to the Company's December 31, 2014 Consolidated Financial Statements.) This resulted in an impairment expense recorded in the year ended December 31, 2014 of $906,000.

As at September 30, 2015 the Company determined that indicators of impairment existed for its CGUs due to the recent further decline in current and forward commodity prices for both oil and natural gas. The Company performed an impairment test on its U.S. CGU which has a book value recorded in property, plant and equipment as at September 30, 2015, using a discount rate of 10% and future commodity price estimates at the time. No impairment expense was necessary as a result of this test.

Dispositions

During the nine months ended September 30, 2015, the Company disposed of the working interest oil and gas properties which had been included in its Canadian non-core CGU for non-cash proceeds of $447,000, on the assumption of the decommissioning liability by the purchaser. As a result of the impairment recorded as at December 31, 2014 on these assets, no further impairment or loss was recorded in the period ended September 30, 2015.

In addition, the Company sold certain US assets related to interests in well bores for cash proceeds of US$1.0 million during the nine month period ended September 30, 2015.

5. DECOMMISSIONING OBLIGATION

Balance as at December 31, 2013	$	552
Acquisition of petroleum and natural gas properties		27
Additions		198
Obligations Settled		(84)
Revisions of estimated cash flows		166
Accretion		7
Effect of foreign exchange rate		26
Balance as at December 31, 2014		892
Acquisition of petroleum and natural gas properties		63
Additions		89
Obligations Settled		(2)
Dispositions		(447)
Revisions of estimated cash flows		4
Accretion		5
Effect of foreign exchange rate		78
Balance as at September 30, 2015	$	682

The Company's decommissioning obligation consists of remediation obligations resulting from its ownership interests in petroleum and natural gas assets. The total obligation is estimated based on the Company's net working interest in wells and related facilities, estimated costs to return these sites to their original condition, costs to plug and abandon the wells and the estimated timing of the costs to be incurred in future years.

As at September 30, 2015, the Company had disposed of all of its Canadian working interest assets and, as a result, have reflected a disposition of the related decommissioning obligation.

The total undiscounted amount of estimated future cash flows required to settle the obligation as at September 30, 2015 is $1.4 million (December 31, 2014 – $1.4 million) which includes an inflation factor of 1.7% (December 31, 2014 – 1.7% to 2.0%) on the costs of decommissioning and assumes that the liabilities are settled over the next 35 years in accordance with estimates prepared by independent engineers. The estimated future cash flows as at September 30, 2015 have been discounted at the risk-free interest rate of 2.8% (December 31, 2014 – 2.4% to 2.8%).

6. DEBT

Senior Loan

The Company's senior loan is a revolving credit facility with a borrowing base of US$22.5 million (Cdn$30.1 million, assuming September 30, 2015 foreign exchange rate) as at September 30, 2015. This facility is due on demand, but has a renewal date of July 16, 2016, at which point, at the bank's option, it may be renewed on terms to be agreed upon at that time, or converted to a non-revolving term facility. This facility is secured by all of the Company's assets and bears interest at the bank's prime lending rate plus 1% or the relevant bankers acceptance fee plus 2.75% if drawn in Canadian dollars, or the bank's U.S. dollar base rate plus 0.50% or U.S. dollar LIBOR rate plus 3.75% if drawn in U.S. dollars. A standby fee of 0.50% per annum is applied to any undrawn balance. The borrowing base is subject to a borrowing base test performed at least twice annually by the bank, based on reserve reports associated with the Company's U.S. petroleum and natural gas properties. A decrease in the borrowing base could result in a repayment to the bank. The bank recently completed its semi-annual review as at June 30, 2015 and re-affirmed the existing borrowing base.

The credit facility is subject to financial and non-financial covenants applied to the Company, on a consolidated basis. The financial covenants consist of: (i) a consolidated cash flow to interest expense ratio, as defined in the loan agreement, which is not to be less than 2.50 to 1 on a rolling four-quarter basis, with any equity injections included in the calculation of consolidated cash flow and interest expense excluded from the definition of consolidated cash flow; and (ii) a requirement that total debt not exceed the borrowing base by more than 133%, while excluding the subordinated loan from the definition of total debt. The facility was drawn approximately US$20.0 million as at September 30, 2015.

Management obtained a waiver from the consolidated cash flow to interest expense covenant from the senior lender on the condition that interest payments under the subordinated loan are deferred until such time as the covenant is back in compliance, or until April 1, 2016, whichever is earlier. Interest payments under the subordinated loan are being deferred commencing April 1, 2015. If the Company is successful in raising equity capital later in the year, proceeds therefrom can be added to cash flow for purposes of this covenant, which may allow interest payments on the subordinated loan to recommence at that time. The consolidated cash flow to interest expense ratio at September 30, 2015 was 2.7. The Company was in compliance with the other covenants under the senior loan as at September 30, 2015.

Subordinated Loan

The Company has a secured, subordinated, revolving credit facility which may be drawn in US dollars and which has a capacity of US$60.0 million (Cdn$80.4 million, assuming September 30, 2015 foreign exchange rate). The maturity date of the facility is December 31, 2016. The credit facility bears interest at a rate of 12% per annum, with interest payments due monthly, and includes a 2.5% loan origination fee. The credit facility is provided by two significant shareholders of the Company, one of whom is also a director and the CEO. This loan is secured by all of the assets of the Company, but subordinated to the senior loan facility. Among certain non-financial covenants, the subordinated loan requires the Company to comply with the financial covenants

required by the senior loan agreement. Thus, a default under the terms of the senior loan would create a default under the subordinated loan agreement. A deferral of interest payments, as a condition of the covenant waiver under the senior loan described above, would result in an increase in the accrued interest rate under the subordinated loan of 5% per annum during the period that interest payments are deferred. However, the subordinated lenders have agreed to waive the interest rate increase in this circumstance, and for the period the interest deferral is required under the senior loan agreement. Loan origination fees in total of US$1.5 million have been reflected net of the outstanding debt balance on the statement of financial position and are being amortized over the term of the credit facility and charged to finance expense using the effective interest rate method. Total fees amortized to finance expense for the three and nine months ended September 30, 2015 were approximately US$225,000 and US$625,000, respectively (September 30, 2014 – US$125,000 and US$333,000, respectively.) This facility was drawn approximately US$32.3 million as at December 31, 2014 and as at September 30, 2015 was drawn US$53.4 million.

Accrued liabilities as at September 30, 2015 includes deferred interest payable and origination fees of US$3.2 million.

7. SHARE CAPITAL

a) Share capital

The Company's authorized share capital includes unlimited Class A preferred shares with rights and privileges to be determined by the Board of Directors prior to issuance, unlimited common non-voting shares, convertible into common voting shares on a 1 for 1 basis, and unlimited common voting shares. As at September 30, 2015, the Company had 27,507,574 (December 31, 2014 – 27,507,574) common shares and 6,700,000 (December 31, 2014 – 6,700,000) non-voting common shares issued and outstanding.

b) Stock Options

In the nine months ended September 30, 2015, the Company issued 20,000 stock options to an employee. The stock options are exercisable for a five year term at an exercise price of $1.11 per share. The options vest in three equal tranches beginning one year from the effective date and then on each of the two following anniversaries.

The following table presents stock option transactions for the periods ended September 30, 2015 and December 31, 2014:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Balance as at December 31, 2013	2,000,205	$ 1.12	4.01
Granted	275,000	1.40	5.00
Balance as at December 31, 2014	2,275,205	1.16	3.15
Granted	20,000	1.11	4.70
Balance as at September 30, 2015	2,295,205	$ 1.16	2.42

As at September 30, 2015, the following stock options were outstanding:

Exercise Prices	Weighted Average Remaining Contractual Term	Number of Outstanding Options	Number of Options Exercisable	Weighted Average Exercise Price
$0.70	3.15	943,264	314,419	$0.70
$1.11	4.01	20,000	-	$1.11
$1.40	3.45	275,000	91,666	$1.40
$1.50	1.47	1,056,941	1,056,941	$1.50
	2.42	2,295,205	1,463,026	$1.16

The Company uses the fair value method to account for all share-based awards granted to employees, officers and directors. The estimated fair value of stock option grants was determined using the Black-Scholes option pricing model and is recorded as a charge to income over the vesting period with a corresponding increase to contributed surplus.

The fair value of the stock options granted has been estimated on the date of grant using the following assumptions:

	Nine months ended September 30, 2015	Year ended December 31, 2014
Expected volatility	122%	115%
Option life	5 years	5 years
Expected dividends	nil	nil
Risk-free interest rate	0.69%	1.57% to 1.73%
Forfeiture rate	0% to 20%	0% to 20%

The expected volatility used in the Black Scholes option pricing model is based on the volatility of the Company's share price.

8. NET LOSS PER COMMON SHARE

The following table presents the Company's net loss per common share:

(thousands, except for share and per share data)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Net loss for the period	$ (3,042)	$ (892)	$ (7,404)	$ (2,024)
Weighted average number of basic common shares	34,207,574	34,207,574	34,207,574	31,393,655
Net loss per weighted average basic and diluted common share	$ (0.09)	$ (0.03)	$ (0.22)	$ (0.06)

9. COMMITMENTS

The Company has an outstanding letter of credit in favor of an energy regulator in North Dakota in the amount of US$75,000. As security, the Company has set aside an equivalent amount in cash at the financial institution that issued the letter of credit.

The Company is committed to monthly rental payments for office space of an average of US$7,500 until August 2017.

10. SUPPLEMENTAL CASH FLOW DISCLOSURES

Changes in non-cash working capital is comprised of:

	Nine months ended September 30,	
	2015	**2014**
Source/(use) of cash:		
Accounts receivable	$ (2,270)	$ (1,186)
Prepaid expenses	13	(42)
Accounts payable	(1,168)	10,364
	$ (3,425)	$ 9,136
Related to operating activities	$ (715)	$ (264)
Related to investing activities	(13,828)	8,234
Related to financing activities	4,313	-
Assumed accounts receivable and payable on acquisition of assets	4,211	1,166
Difference due to foreign exchange	2,594	-
	$ (3,425)	$ 9,136
Interest paid	$ 1,944	$ 1,498
Income taxes paid	nil	nil

11. SEGMENT DISCLOSURES

The Company operates in one industry segment, the production of petroleum and natural gas and the exploration for and development of oil and natural gas properties.

The Company and its subsidiaries operated in two geographical segments during the periods reported below, Canada and the United States. The Company disposed of the majority of its Canadian assets as at June 30, 2015.

	Nine months ended September 30,	
	2015	**2014**
Revenue, net of royalties		
United States	$ 13,311	$ 4,297
Canada	206	489
	$ 13,517	$ 4,786
Net loss for the period		
United States	$ (6,952)	$ (1,215)
Canada	(452)	(809)
	$ (7,404)	$ (2,024)

	September 30, 2015	**December 31, 2014**
Property, plant and equipment		
United States	$ 114,612	$ 73,920
Canada	718	1,116
	$ 115,330	$ 75,036