

Condensed Consolidated Interim Financial Statements of  
(Unaudited and Unreviewed by the Company's independent Auditors)

## **GASTEM INC.**

Periods ended September 30, 2013 and 2012

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Condensed Consolidated Interim Financial Statements  
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Periods ended September 30, 2013 and 2012

## **Financial Statements**

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# GASTEM INC.

Condensed Consolidated Interim Statements of Financial Position  
(Unaudited and Unreviewed by the Company's independent Auditors)

Periods ended September 30, 2013 and December 31, 2012

	September 30, 2013	December 31, 2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 124,434	\$ 1,709
Short-term investments (interest at 0.09% maturing in November 2013)	50,400	50,064
Accounts receivable (note 4)	126,061	302,316
Deposits on contract	135,000	135,000
Prepaid expenses and deposits	2,462	10,753
Total current assets	438,357	499,842
Non-current assets:		
Equipment	102,969	123,209
Gas properties (note 5)	5,640,160	5,831,465
Exploration and evaluation assets (note 6)	16,287,699	20,063,223
Long-term deposits	—	150,000
Total non-current assets	22,030,828	26,167,897
<b>Total assets</b>	<b>\$ 22,469,185</b>	<b>\$ 26,667,739</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,618,743	\$ 2,762,112
Total current liabilities	2,618,743	2,762,112
<b>Equity</b>		
Share capital and warrants (note 7)	46,628,221	46,628,221
Contributed surplus	2,726,684	2,716,792
Deficit	(29,504,463)	(25,439,386)
Total equity	19,850,442	23,905,627
Nature of operations and going concern (note 1)		
<b>Total liabilities and equity</b>	<b>\$ 22,469,185</b>	<b>\$ 26,667,739</b>

The notes on pages 5 to 17 are an integral part of these condensed interim financial statements.

On behalf of board:

(s) Raymond Savoie Director

(s) Bernard Henault CFO

# GASTEM INC.

## Condensed Consolidated Interim Statements of Comprehensive Loss

Periods ended September 30, 2013 and 2012

	<u>Three-month period ended September 30,</u>		<u>Nine-month period ended September 30,</u>	
	2013	2012	2013	2012
Expenses:				
Salaries and benefits	\$ 323	\$ 63,788	\$ 962	\$ 240,393
Share-based payments (note 8)	2,227	3,085	9,892	11,687
Professional fees	17,560	71,840	94,654	397,344
Office, trustees and report to shareholders	30,194	61,652	94,035	193,307
Promotion, convention and representation	4,979	10,406	8,052	35,300
Rent	7,826	20,793	12,639	80,896
Amortization	6,138	13,171	18,415	23,402
	69,247	244,735	238,649	982,329
Loss on disposal of properties	140,569	–	3,819,900	–
Loss before net finance income and income taxes	(209,816)	(244,735)	(4,058,549)	(982,329)
Net finance income (note 9):				
Finance income	113	144	336	2,432
Finance expense	(2,124)	(884)	(6,864)	(15,617)
	(2,011)	(740)	(6,528)	(13,185)
Loss before income taxes	(211,827)	(245,475)	(4,065,077)	(995,514)
Deferred income taxes	–	(212,378)	–	–
Loss and comprehensive loss	\$ (211,827)	\$ (457,853)	\$ (4,065,077)	\$ (995,514)
Basic and diluted net loss per share	\$ (0,002)	\$ (0,005)	\$ (0,045)	\$ (0,011)
Weighted average number of outstanding shares, during the period	89,787,007	89,787,007	89,787,007	89,787,007

The notes on pages 5 to 17 are an integral part of these condensed interim financial statements.

# GASTEM INC.

## Condensed Consolidated Interim Statements of Cash Flows

Nine-month periods ended September 30, 2013 and 2012

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2013	2012	2013	2012
Cash flows from operating activities:				
Net loss and comprehensive loss	\$ (211,827)	\$ (457,853)	\$ (4,065,077)	\$ (995,514)
Adjustment for:				
Amortization	6,138	13,171	18,415	23,402
Deferred income taxes	–	212,378	–	–
Loss on disposal of properties	140,569	–	3,819,900	–
Share-based payments	2,227	3,085	9,892	11,687
Interest income	(113)	(144)	(336)	(2,432)
Changes in non-cash working capital items:				
Accounts receivable	245,304	983	476,255	290,038
Prepaid expenses and deposits	(2,462)	19,205	8,291	42,572
Accounts payable and accrued liabilities	(220,127)	106,951	(143,370)	(234,445)
Interest received	113	144	336	2,432
	(40,178)	(102,080)	124,306	(862,260)
Cash flows from investing activities:				
Decrease (increase) in restricted cash	(113)	(144)	(336)	(386)
Decrease (additions) to gas properties	(4,235)	9,579	141,305	28,455
Decrease (additions) to exploration and evaluation assets	4,574	(59,930)	(44,376)	93,074
Deposits on long term assets	150,000	–	150,000	–
Proceeds on disposal of gas property	–	–	50,000	–
Balance on sales of properties	–	–	(300,000)	–
Disposal of Capital assets	–	10,000	1,826	10,000
	150,226	(40,495)	(1,851)	131,143
Net increase (decrease) in cash and cash equivalents	110,048	(142,575)	122,725	(731,117)
Cash and cash equivalents, beginning of period	14,386	150,323	1,709	738,865
Cash and cash equivalents, end of period	\$ 124,434	\$ 7,748	\$ 124,434	\$ 7,748

The notes on pages 5 to 17 are an integral part of these condensed interim financial statements.

# GASTEM INC.

## Condensed Consolidated Interim Statements of Changes in Equity

Nine-month periods ended September 30, 2013 and 2012

	Share capital and warrants	Contributed surplus	Deficit	Total
Balance, December 31, 2011	\$ 46,628,221	\$ 2,715,348	\$ (21,960,473)	\$ 27,383,096
Share-based payments	—	11,687	—	11,687
Net loss	—	—	(995,514)	(995,514)
Balance, September 30, 2012	\$ 46,628,221	\$ 2,727,035	\$ (22,955,987)	\$ 26,399,269
Balance, December 31, 2012	\$ 46,628,221	\$ 2,716,792	\$ (25,439,386)	\$ 23,905,627
Share-based payments	—	9,892	—	9,892
Net loss	—	—	(4,065,077)	(4,065,077)
Balance, September 30, 2013	\$ 46,628,221	\$ 2,726,684	\$ (29,504,463)	\$ 19,850,442

The notes on pages 5 to 17 are an integral part of these condensed interim financial statements.

# GASTEM INC.

## Notes to Condensed Consolidated Interim Financial Statements

Nine-month periods ended September 30, 2013 and 2012

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Gastem Inc. ("Gastem" or the "Company") is incorporated under the *Canada Business Corporations Act*. The Company's registered office is 1155 University Street, Suite 1308, Montréal, Quebec, Canada H3B 3A7. The Company was created to acquire, explore and develop gas properties, which are presently at the exploration stage and it has not yet been determined whether the existing properties contain reserves that are economically recoverable.

The condensed consolidated interim financial statements of the Company as at and for the nine month period ended September 30, 2013 comprise the Company and its subsidiary (together referred to as the "Group" and individually as "Group entities").

### 1. Nature of operations and going concern

The Company holds gas properties or interest in such properties and permits ("properties") in the province of Québec and in Appalachia, notably in New York State.

Although the Company has taken steps to verify title to gas properties in which it has an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to non-compliance with regulatory requirements or, in Québec as of 2011, uncertainty due to political considerations.

The condensed consolidated interim financial statements were prepared under the assumption of going concern, which presumes that the Company will continue its operations in the foreseeable future and will be able to realize its assets and discharge its liabilities in its normal course of operations.

The Company is in the process of exploring and evaluating its gas properties and projects and has not yet determined whether its properties and projects contain reserves that are economically recoverable. Operations have not yet generated any revenues. The ability of the Company to meet its commitments as they become payable, including the acquisitions of gas properties and the development of projects, is dependent on the ability of the Company to obtain necessary financing. The recoverability of amounts shown for gas properties is dependent upon the ability of the Company to obtain necessary financing to complete the acquisition, exploration and development thereof, and upon future profitable production or proceeds from the disposal of properties.

# GASTEM INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued

Nine-month periods ended September 30, 2013 and 2012

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## 1. Nature of operations and going concern (continued)

### Québec properties

The Minister of Sustainable Development, Environment and Parks has released a report to the Bureau d'audiences publiques sur l'environnement ("BAPE") filed on February 28, 2011 about the sustainable development of the shale gas industry in Québec. In its report, the commission of inquiry of the BAPE presents a number of findings and recommendations. Among others, all fracturing operations in the oil and gas industry in Québec will now be subject to authorisation by the Strategic Environmental Study ("SES") committee until the SES has deposited its study in two or three years, according to the government at that time. During the SES, the government will not authorise production of oil or gas wells anywhere in Québec.

As a result of Bill 18 being adopted, all statutory obligations for exploration work on existing permits is suspended for the duration of the SES and all permit expiry dates, prolonged for the duration of the SES.

Article 3 of Bill 18 states the following:

"The holder of a license to explore for petroleum, natural gas and underground reservoirs is exempted from performing the work required under the *Mining Act* until the date determined by the Minister, which date may not be later than June 13, 2014. In that case, the term of the license is deemed to be suspended in accordance with section 169.2 of that Act. At the end of the exemption period, the expiry date of the licence is deferred to the end of the period for performing the work that remains to run after the lifting of the suspension."

Several other pieces of legislation and regulations all to the effect of delaying or rendering complicated exploration for hydrocarbons have also been presented. Given that the present government is a minority government, it remains to be seen if the political process will continue to move forward.

### Magdalen Islands properties

On December 16, 2011, the Québec government has also established a BAPE review for gas exploration and production on the Magdalen Islands, prior to any exploration well or any permit application for a conventional well. The government has stated that the BAPE will issue its report publicly no later than sixty days after October 14th, 2013. As a result, there can be no on site exploration work until this process has been completed.



# GASTEM INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued

Nine-month periods ended September 30, 2013 and 2012

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## 1. Nature of operations and going concern (continued)

### New York State properties

In New York State, acceptable new high volume fracturing regulations have been tabled for comments on January 11, 2012 and are now in the process of being reviewed. According to State authorities, the new regulations concerning fracturing should be in place by May 2015. However, precisely what the regulations will contain in terms of high volume hydro-fracking and when they will be adopted depends on the results of the review and the political process. In New York State, conventional wells and exploration activities are proceeding as usual.

The Company's gas properties located in Québec and New York State and the related deferred exploration costs, totalling \$15,393,382 as at September 30, 2013, include fracture wells. In addition, as part of a farm-out contract, the operator of the St-Hyacinthe project and the Company are required to complete exploration work on wells of this property totalling approximately \$6,000,000 by December 2014, without which the Company and its partner will lose their interest in the property. The amounts capitalized as gas properties and deferred exploration costs for this property totalled \$5,600,924 as at September 30, 2013. To date, management is unable to determine when the exploration will continue on these properties.

These factors indicate the existence of a material uncertainty regarding future shale gas exploration and development and could have a material adverse effect on the Company and the realization of its properties and related exploration and evaluation assets.

### **Going Concern**

The consolidated interim financial statements were prepared under the assumption of a going concern, which presumes that the Company will continue its operations in the foreseeable future and will be able to realize its assets and discharge its liabilities in its normal course of operations.

The Company is in the process of exploring and evaluating its gas properties and projects and has not yet determined whether its properties and projects contain reserves that are economically recoverable. Operations have not generated yet any revenues. The ability of the Company to meet its commitments as they become payable, including the acquisitions of gas properties and the development of projects, is dependent on the ability of the Company to obtain necessary financing. The recoverability of amounts shown for gas properties is dependent upon the ability of the Company to obtain necessary financing to complete the acquisitions, explorations and development thereof, and upon future profitable production of proceeds from the disposal of properties.

The consolidated interim financial statements do not reflect adjustments that should be made to the book value of assets and liabilities, if the going concern assumption was inappropriate.

# **GASTEM INC.**

## Notes to Condensed Consolidated Interim Financial Statements, Continued

Nine-month periods ended September 30, 2013 and 2012

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### **2. Basis of preparation**

#### **Statement of compliance**

The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board ("IASB") and that are in effect at September 30, 2013.

The condensed consolidated financial statements were authorized for issue by the Board of Directors on November 29<sup>th</sup>, 2013.

These condensed consolidated interim financial statements should be read in conjunction with the company's annual audited financial statements for the year ended December 31, 2012.

#### **Basis of measurement**

The condensed consolidated interim financial statements have been prepared on the historical cost basis.

#### **Functional and presentation currency**

These condensed consolidated interim financial statements are presented in Canadian dollar, which is the Company's functional currency.

#### **Use of estimates and judgments**

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the consolidated financial statements is included in Note 3 and consists in the determination of capitalizable costs as explorations and evaluation assets. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year including in the following notes:

Notes 1,3 and 6 – recoverability of gas properties and exploration and evaluation assets;

Notes 3 – assessment of refundable tax credits related to resources;

Notes 3 and 8 – estimation of fair value of share-based payment.

# GASTEM INC.

## Notes to Condensed Consolidated Interim Financial Statements, Continued

Nine-month periods ended September 30, 2013 and 2012

### 3. Significant accounting policies

The condensed consolidated interim financial statements have been prepared following the same basis of presentation and accounting policies used in the annual financial statements for the year ended December 31, 2012.

### 4. Accounts receivable

	September 30, 2013	December 31, 2012
Partners' contribution	\$ –	\$ 241,687
Amounts receivable from related parties <sup>(i)</sup>	26,252	27,551
Loans receivable from officer	66,731	–
Other	33,078	33,078
	<b>\$ 126,061</b>	<b>\$ 302,316</b>

- (i) As at September 30, 2013, following a cost sharing agreement, the accounts receivable include an amount of \$26,252 (December 31, 2012 - \$27,551) receivable from companies in which an officer of the Company is also an administrator.

### 5. Gas properties

Gas properties can be detailed as follows:

Properties	January 1, 2013	Acquisition	Impairment	September 30, 2013
Magdalen Islands	\$ 8,925	\$ 1,752	\$ –	\$ 10,677
St-Jean	79,201	7,945	–	87,146
Dundee	256,145	7,175	–	263,320
Matapedia	213,198	304	(213,502)	–
Yamaska	8,658	4,538	–	13,196
Miguasha	82,523	–	–	82,523
St-Hyacinthe	2,437,500	–	–	2,437,500
Joly	2,341,936	483	–	2,342,419
New York	403,379	–	–	403,379
	<b>\$ 5,831,465</b>	<b>\$ 22,197</b>	<b>\$ (213,502)</b>	<b>\$ 5,640,160</b>

# GASTEM INC.

## Notes to Condensed Consolidated Interim Financial Statements, Continued

Nine-month periods ended September 30, 2013 and 2012

### 5. Gas properties (continued)

Properties	January, 2012	Transfer from explo- ration and evaluation assets	Acquisition	Reimbursement	Impairment	December 31, 2012
Magdalen Islands	\$ 7,172	\$ —	\$ 1,753	—	\$ —	\$ 8,925
St-Jean	103,035	—	—	(23,834)	—	79,201
Dundee	251,606	—	4,539	—	—	256,145
Matapedia	197,792	—	17,976	(2,571)	—	213,197
Yamaska	22,272	—	—	(13,613)	—	8,659
Miguasha	79,584	—	2,939	—	—	82,523
St-Hyacinthe	2,437,500	—	—	—	—	2,437,500
Joly	—	2,341,936	—	—	—	2,341,936
New York	795,292	—	—	(6,606)	(385,307)	403,379
	\$ 3,894,253	\$ 2,341,936	\$ 27,208	\$(46,625)	\$ (385,307)	\$ 5,831,465

In 2004, the Company acquired an interest in 15 permits for the oil and natural gas properties of St-Jean, Dundee, Matapedia and Yamaska in consideration of the issue of 3,757,408 common shares to Ditem Explorations Inc. In addition, the Company obtained 117,000 hectares of exploration permits in the Gaspé Peninsula adjacent to the existing Matapedia blocks. In 2010, following the adoption of Bill 18, that part of the Dundee permits in the St-Lawrence River was revoked unilaterally, arbitrarily and without compensation by the Government of Québec. The Dundee permit has been reduced by about 20,000 hectares or about 20% of its size, resulting of an impairment of \$89,204.

In 2005, the Company acquired an interest of 10% in the Shell Saint-Simon property by issuing 1,000,000 common shares and by assuming 10% of the future development costs. In 2010, the operator has decided to abandon this well and the Company has recorded an impairment charge of \$100,000 related to properties and \$2,295 of exploration and evaluation assets.

In 2007, the Company granted Forest Oil Corporation the right to earn up to a 60% working interest in the Yamaska property, which covers 45,381 hectares, by spending up to \$10,000,000 in exploration. In 2008, Forest Oil notified the Company of its election to exercise its financial commitments option on the Yamaska property. The Yamaska property was subject to a 7.5% convertible gross overriding royalty ("GORR") with another partner, which was converted into a 20% working interest. Forest Oil has transferred all rights and interests to successor Lone Pine Resources. The St-Louis well may be closed and abandoned by operator Lone Pine in late 2012.

In 2007, the Company acquired an interest of 35% in the permit of Joly property. The 35% interest was earned with the drilling of Joly 4 and is currently looking at the possibility of drilling Joly 6. The Joly 5 well site is being restored and restoration should be completed in 2013.

# GASTEM INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued

Nine-month periods ended September 30, 2013 and 2012

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## 5. Gas properties (continued)

In 2008, the Company signed an agreement with Covalent Energy (now Utica Energy) for an option to acquire a working interest up to 65% on exploration permits covering 29,000 hectares in consideration of the cost of an exploration program (New York property). In September 2009, the Company signed a final amendment to the agreement. The Company paid an amount of US\$35,000, issued 3,500,000 common shares to Utica and completed an exploratory vertical well and acquired an 80% interest in 34,150 acres. In February 2012, Utica and Gastem signed an agreement whereby Utica abandoned all rights and interests in Gastem present and future properties in New York State. The 20% interest on all New York properties belonging to Utica has been acquired by Gastem in exchange of an amount of \$268,244 owed to Gastem, principally for their participation in the drilling and fracturing of the Ross well. Gastem is now 100% owner of all interests in New York Properties.

In 2008, the Company signed, together with its partner Canbriam Energy, a farm-in agreement for a total of 85% working interest in the two St-Hyacinthe (formerly Mundiregina) permits (92,104 acres) situated in the St-Lawrence Lowlands. According to the terms of the agreement, Gastem may earn a 17% interest and Canbriam, 68%, with the sellers maintaining a 15% carried interest. Under the terms of the agreement, the Company paid to the seller an upfront consideration of \$2,500,000 and committed to pay 20% of a six-well and seismic program to be carried out. As a result of the SES by the government, all obligations regarding the property have been postponed to late 2014. The vertical well at La Presentation on the St-Hyacinthe property has been plugged and an impairment charge of \$797,672 has been recorded on exploration and evaluation assets of the property in 2011. The value of the horizontal well of the property was not impaired as it is not affected by the restrictions imposed by the SES and the Company intends to continue its exploration activities on it.

In 2008, Gastem acquired the petroleum and gas exploration permits to the Magdalen Islands known to be prospective for gas and situated in the Magdalen Basin from the Québec Natural Resources Department. The Magdalen permit is located in the central part of the Gulf of St-Lawrence. No work is planned for the Magdalen Islands in 2012 following a BAPE hearing scheduled for 2012.

In January 2009, the Company acquired permits in the Appalachian area in order to carry out exploration and development programs.

In 2011, New York State leases in Otsego County are gradually being allowed to expire and the Company is now focusing and acquiring properties and rights in Chenango County and other counties in south central New York State and elsewhere. Certain permits will not be renewed by the Company and impairment charges of \$1,791,736 and \$279,802 have been accounted for in 2011 on this property and related exploration and evaluation assets, respectively.

# GASTEM INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued

Nine-month periods ended September 30, 2013 and 2012

## 5. Gas properties (continued)

In 2011, the Company began discussions with Marzcorp Oil & Gas Inc. for the acquisition of a substantial interest in their Gaspe properties. Gastem does not intend at this time to proceed with these discussions.

In the July of 2013, the Company sold the Matapedia-Cyr properties to Petrolia and St-Aubin as a result of the problems with the Town of Ristigouche.

## 6. Exploration and evaluation assets

Exploration and evaluation activities can be detailed as follows:

	September 30, 2013	December 31, 2012
Balance, beginning of period	\$ 20,063,223	\$ 25,200,717
Increase (decrease):		
Drilling	–	(148,522)
Seismic work	–	13,064
Geological work	(7,209)	18,734
Site preparation, evaluation and others	14,273	317,583
Contribution (received) from a partner	180,090	(264,417)
Less write-off on sale of properties	(3,962,678)	–
Impairment of exploration and evaluation assets	–	(2,732,000)
Transfer to Joly mining property	–	(2,341,936)
	(3,775,524)	(5,137,494)
Balance, end of period	\$ 16,287,699	\$ 20,063,223

# GASTEM INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued

Nine-month periods ended September 30, 2013 and 2012

## 6. Exploration and evaluation assets (continued)

Exploration and evaluation assets by property can be detailed as follows:

Properties	January 1, 2013	Exploration costs	Contributions paid to/ (received from) partners	Impairment	September 30, 2013
Magdalen Islands	\$ 925,621	\$ (4,350)	\$ —	\$ —	\$ 921,271
St-Jean	363,652	—	15,130	—	378,782
Dundee	953,956	—	11,548	—	965,504
Matapedia	3,812,203	(9,216)	143,412	(3,946,399)	—
Yamaska	4,730,706	887	—	—	4,731,593
Miguasha	4,034	—	—	—	4,034
St-Hyacinthe	3,141,953	21,471	—	—	3,163,424
New York	6,131,098	(1,728)	—	(6,279)	6,123,091
	\$ 20,063,223	\$ 7,064	\$ 170,090	\$(3,952,678)	\$ 16,287,699

Properties	January, 2012	Reim- bursement and proceeds on disposal	Exploration costs	Contribution paid to (received from) partners	Transfer to mining pro- perties and Impairment	December 31, 2012
Magdalen Islands	\$ 903,072	\$ —	\$ 22,549	\$ —	\$ —	\$ 925,621
St-Jean	382,283	(3,501)	—	(15,130)	—	363,652
Dundee	962,524	—	6,968	(15,536)	—	953,956
Matapedia	3,892,718	—	120,413	(200,928)	—	3,812,203
Yamaska	4,746,456	—	17,415	(33,165)	—	4,730,706
Miguasha	4,034	—	—	—	—	4,034
St-Hyacinthe	3,048,617	—	92,994	342	—	3,141,953
Joly	5,312,855	(263,555)	24,636	—	(5,073,936)	—
New York	5,948,158	—	182,940	—	—	6,131,098
	\$25,200,717	\$(267,056)	\$467,915	\$ (264,417)	\$(5,073,936)	\$ 20,063,223

# GASTEM INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued

Nine-month periods ended September 30, 2013 and 2012

## 7. Share capital and warrants

Authorized

An unlimited number of common shares, without par value

	September 31, 2013	December 31, 2012
Issued		
89,787,007 common shares	\$ 46,628,221	\$ 46,628,221

## 8. Share-based payments

Under the share option plan for the benefit of the directors and officers of the Company, 5,822,612 common shares are available; the life of the options cannot exceed ten (10) years and the options vest immediately or over a period of one, two or three years.

The number of outstanding share options changed as follows:

	September 30, 2013	Average exercisable price	December 31, 2012	Average exercisable price
Balance, beginning of year	738,416	\$ 0.44	1,938,614	\$ 0.53
Issued	—	—	—	—
Exercised	—	—	—	—
Cancelled/expired	—	—	(1,200,198)	0.51
Balance, end of period	738,416	\$ 0.44	738,416	\$ 0.44
Exercisable options, end of period	738,416	\$ 0.44	738,416	\$ 0.44



# GASTEM INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued

Nine-month periods ended September 30, 2013 and 2012

## 8. Share-based payments (continued)

As at September 30, 2013, the following options were outstanding:

Number of options	Exercise price	Expiring date
30,000	\$ 0.37	July 31, 2014
448,416	0.58	October 29, 2014
200,000	0.20	January 27, 2016
60,000	0.21	February 4, 2016
738,416		

During the period ended September 30, 2013, the company did no grant share options.

## 9. Net finance income

Net finance income is detailed as follows:

	September 30, 2013	September 30, 2012
Interest income	\$ 336	\$ 2,433
Finance income	336	2,433
Bank charges	(5,895)	(6,632)
Net foreign exchange gain (loss)	(969)	833
Part XII.6 of taxes	—	(9,819)
Finance expense	(6,864)	(15,618)
Net finance loss	\$ (6,528)	\$ (13,185)

# GASTEM INC.

## Notes to Condensed Consolidated Interim Financial Statements, Continued

Nine-month periods ended September 30, 2013 and 2012

### 10. Related party transactions

The Company has no ultimate parent.

Key management personnel compensation comprised:

	September 30 2013	September 30, 2012
Short-term employee benefits	\$ –	\$ 41,741
Share-based payments	–	8,602

Other related party transactions

During the period, the Company paid its share of the cost of the lease and other office costs to a company controlled by a director of the Company in the amount of \$12,639 (\$80,896 – 2012). These transactions were recorded at the exchange amount, which is the amount established and agreed to by the parties.

### 11. Commitments and contingencies

Under the terms of exploration permits granted by the Ministère des Ressources naturelles, the Company is committed to pay annuity of \$26,869 until 2013. In addition, the Company is required to perform yearly, on the land covered by its permits, work for which the minimum expenditure varies according to the age of the permit; for the first year, such work must be no less than the greater of \$0.50 per hectare or \$3,000, \$1.00 or \$6,000 for the second year, \$1.50 or \$9,000 for the third year, \$2.00 or \$12,000 for the fourth year and \$2.50 or \$15,000 for the fifth year of the permit. For subsequent renewal years, minimum costs are the greater of \$2.50 per hectare or \$20,000.

# GASTEM INC.

## Notes to Condensed Consolidated Interim Financial Statements, Continued

Nine-month periods ended September 30, 2013 and 2012

### 11. Commitments and contingencies (continued)

Since the adoption of Bill 18, all these commitments have been suspended until the SES is completed and the Ministère des Ressources naturelles authorizes the Company to continue its exploration activities on the Québec properties. The following represents the summary of the commitments that will be payable once the exploration activities will resume. The original maturity date of these commitments will be extended for a period of time equivalent to the period that exploration work will be suspended.

	Annuities	Expenditures	Total
Original maturity dates:			
2011	\$ 17,852	\$ 1,027,704	\$ 1,045,556
2012	5,537	363,910	369,447
2013	3,480	15,000	18,480
	\$ 26,869	\$ 1,406,614	\$ 1,433,483

#### Environment

The Company's operations are subject to governmental laws and regulations regarding environmental protection. Environmental consequences, their impact and their duration are difficult to determine. Management endeavours to carry out its activities in compliance with all applicable laws and regulations and ensures to follow instructions and recommendations of competent authorities when potential issues are encountered.