A COMPANY IN ACTION

ANNUAL REPORT 2012

PÉTROLIA

Quebec's Leader in Oil Exploration

TABLE OF CONTENTS

THE DEVELOPMENT
OF EASTERN QUEBEC'S
OIL AND GAS POTENTIAL
HAS BECOME A TOP
ECONOMIC PRIORITY.

André Proulx, president of the Company

MORE POSITIVE THAN EVER

Tapping into the resource wealth of the Gaspé Peninsula and Anticosti Island can help Quebec tackle its international trade deficit, stimulate private investment, create quality jobs, and generate new government revenues.

PRESIDENT'S MESSAGE TO SHAREHOLDERS

Pétrolia's goal is to create a full-fledged Quebec oil and gas company to meet the province's oil needs using Quebec's own resources. This goal now looks more realistic than ever.

Not that long ago, the idea of prospecting for oil in Quebec would have met with laughter. Today, developing the oil and gas potential of eastern Quebec is a top economic priority. By drawing attention to the massive potential of Anticosti Island, Pétrolia has been instrumental in this change of attitude.

And because of its potential impact on the Quebec economy, Pétrolia has attracted more media attention than a junior oil company normally would.

Quebec, along with a handful of countries that includes the U.S., is in the uniquely privileged position of being able to reduce its dependence on energy imports. Energy independence is a powerful economic driver that would provide Quebec with a clear competitive advantage. Pétrolia, which holds permits to over 70% of the province's land-based oil potential, could play a key role in the economic growth that would flow from developing this valuable resource.

However, helping Quebec achieve energy independence comes with certain conditions, namely environmental stewardship, respect for local communities and transparency. Recent opinion polls show that Quebecers strongly support oil and gas development provided the communities affected are taken into consideration. Pétrolia's efforts to promote social acceptance of its projects over the last few years have proven to be a smart strategy and must continue with the same energy and commitment.

In 2012 Pétrolia made its mark once again by undertaking three drilling campaigns on the Gaspé Peninsula, conducting stratigraphic corehole on Anticosti, teaming up with the scientific community on research programs, and launching communication initiatives, making it the most active company in Quebec's oil and gas industry.

Along with its ambitions of replacing Quebec's oil and gas imports with local production, Pétrolia aims to help build an entire industry, which could transform the Quebec economy in the same way that it is driving the recovery of the world's largest economy. Oil and gas production in eastern Quebec would also encourage the onsite processing of other natural resources there where they are produced.

By tapping into the resource wealth of the Gaspé Peninsula and Anticosti Island, Quebec could conceivably correct its international trade deficit, stimulate private investment, create quality jobs and generate new government revenues. Developing these resources will also improve prospects for young people in the resource regions and help stem the regional drain.

The Quebec government recently expressed its willingness to allow oil and gas production in the province. This position, clearly reiterated several times, could mark a turning point for our young company. If the Haldimand 4 well lives up to its promise, Pétrolia will be able to book the reserves on its balance sheet and embark on the path to becoming a producer. As well, drilling could begin on Anticosti Island to determine the production capacity of the Macasty source rock. Confirmation of Anticosti's potential would be a defining moment in Quebec's history and pave the way to tremendous growth opportunities for our Company.

Through its work, Pétrolia has acquired enviable technical expertise and knowledge with few parallels in Quebec. Our vision and approach are both original and innovative, forming the foundation on which to build a full-fledged oil and gas company that can play a key role in Quebec's economic development.

Looking ahead, the Company will face the tough challenge of managing the growth generated by its success. To meet this challenge, Management is exploring the type of organizational structure to put in place, the expertise required and how to best plan for succession.

In many respects, the conditions are ripe for our exploration company to become an oil producer and achieve its objective for the benefit of its shareholders and the Quebec economy.

André Proulx, president of the Company

Oil from Quebec

AS A PUBLIC RESOURCE, QUEBEC OIL MUST BE PRODUCED IN AN ENVIRONMENTALLY RESPONSIBLE MANNER THAT INVOLVES AND RESPECTS LOCAL COMMUNITIES.

VISION

OIL FROM HERE Pétrolia sincerely believes that Quebec has vast oil reserves, which is why it is drawing attention to the province's immense resource wealth. The oil discovered in Gaspésie is of excellent quality and Anticosti Island harbours tremendous oil potential, offering Quebecers a unique opportunity to create an industry that will benefit current and future generations. Quebec's oil resources are located in the eastern part of the province, where job creation is a constant issue. It goes without saying that production must proceed in an environmentally responsible manner, with respect for and the cooperation of local communities.

Why not then produce oil, sustainably, here at home, and build an even brighter future for Quebecers?

BY THE PEOPLE HERE Oil is a part of Quebec's collective wealth and must be developed for everyone's benefit. Pétrolia believes that production should be controlled locally and that the acquisition of Quebec expertise should be encouraged. Therefore, in developing the oil potential of eastern Quebec, Pétrolia use the services of local companies whenever possible. Encouraging business creation at home in order to increase spinoffs and generate jobs is a top priority. And fostering the emergence of a new industry gives real meaning to produce our hydrocarbons.

FOR HERE Quebec oil is a responsible alternative to imported oil. Reducing dependence on oil imports means decreasing Quebec's international trade deficit, creating quality jobs and providing the government with additional revenues that to help pay for public services. Producing oil for local consumption is also a way of offering future generations in the regions good prospects for quality, sustainable jobs. By developing eastern Quebec's oil resources, we are paving the way to the sustainable development of Quebec and its regions.

WHERE THE ACTION IS

Pétrolia's determination, novel approach, and transparency with the public have paid off, tracing a path the Company will continue to follow.

THE YEAR
IN REVIEW

Despite the slowdown in oil and gas industry activity in Quebec, Pétrolia had a particularly busy year in 2012.

Through its exploration work, communication initiatives, community relations, knowledge acquisition activities and successful efforts to secure financing, the Company consolidated its position as an industry leader in Quebec. The media attention it attracted throughout the year is testimony to Pétrolia's potential and the role it could play in Quebec's economic development.

In the Haldimand sector of the Gaspé Peninsula, Pétrolia is behind the first discovery of significant oil reserves in Quebec. The Company continued its efforts to bring this first deposit into commercial production. The injectivity tests conducted in fall 2011 on Haldimand 1 improved the well's natural productivity and provided further support for the hypothesis that a naturally fractured reservoir can produce without stimulation.

With its partner Québénergie, the Company increased its interest in the Haldimand permit. The two partners now own this first deposit outright. The Company also obtained authorization for a third well on the structure to determine the deposit's production capacity and clarify the extent of the reservoir. The drilling, which will begin in early 2013, is the first step towards obtaining a production permit.

Alongside its efforts to develop Haldimand, Pétrolia renewed work on the Bourque project by obtaining drilling permits for Bourque 1 and Bourque 2. Work on these two wells and on Haldimand 4 was able to proceed after the Company secured over $15.75 million in financing. However, at the time of writing, both Bourque projects had been suspended pending additional production tests and an evaluation of the commercial potential of the oil found during drilling.

During the year, Pétrolia drilled three stratigraphic coreholes on Anticosti Island. The cores were sent to a lab for testing to confirm the presence of hydrocarbons in the Macasty Formation, better estimate its potential and determine the petrophysical properties of the rock. This work will also help the Company pinpoint where to locate future drilling and to take the necessary steps to undertake a drilling campaign as soon as possible.

Preliminary results for the core sample extracted from Princeton Lake reveal that the Macasty Formation is 103 metres thick and that the organic matter content exceeds expectations. Moreover, its porosity and permeability compare favourably with those of formations already in production. Detailed results of these analyses will be released in 2013.

In conjunction with its exploration activities, Pétrolia initiated hydrogeological studies of the areas under exploration. Led by the Eau Terre Environnement Research Centre of the Institut national de la recherche scientifique (INRS-ETE), these studies seek to determine the potential effect of drilling on groundwater and identify the most vulnerable areas so that protective measures can be implemented as required. Observation wells have been drilled to enable the researchers to assess and develop models of the hydrogeological systems in the Haldimand and Anticosti sectors as well as to allow for environmental monitoring.

This initiative, the first of its kind in Quebec's oil and gas industry, addresses one of the public's main and repeatedly expressed concerns, which Pétrolia felt merited careful and detailed examination. By enlisting the assistance of the scientific community, namely INRS-ETE, the Company has acknowledged the legitimacy of these concerns.

The oil industry is still misunderstood in Quebec. Consequently, Pétrolia made unparalleled efforts in 2012 to foster social acceptance of its projects. The websites created for each of the three wells planned in the Gaspé Peninsula, the public information sessions and a series of programs aired on community television were all well received by the communities in which the Company operates. Pétrolia's goal is to provide the public with quality, verifiable information. Keeping the channels of communication open and maintaining transparency in its relationships with local communities is and will remain a priority. Judging by the reaction to date, it appears that Pétrolia is on the right track.

On the government side, it appears that support for oil development will soon translate into concrete action. Recent declarations in support of the development of Quebec's oil reserves reinforce the perception that the government wants to create the necessary conditions to develop this valuable natural resource.

Priorities for the year ahead include evaluating the wells drilled in 2012, obtaining a production permit, and continuing to develop the potential of Anticosti Island. The Company also plans to further strengthen its technical and administrative expertise. Pétrolia's novel approach, transparency with the public and determination have paid off, and the Company will continue on this path.

Pétrolia has tremendous potential for growth. This growth will bring new challenges that Management will pay close attention to in the years ahead.

A resource for all to share

WORKING TOWARD AN ENERGY-INDEPENDENT QUEBEC

AN INDUSTRY ON THE MOVE

Producing our own oil is another way to provide future generations in the regions with access to quality, sustainable jobs.

ANNUAL MANAGEMENT REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2012

This management report is an addition and supplement to the audited financial statements for the fiscal years ended September 30, 2012 and 2011 and should be read in conjunction with those statements, which were prepared in accordance with international financial reporting standards (IFRS).

This management report presents Management's views on current Company activities and on the annual financial results, as well as an overview of the activities of the next fiscal year.

DATE

The effective date of this management report is December 11, 2012.

INCORPORATION AND MISSION

The Company, incorporated under Part 1A of the Quebec *Companies Act* and governed by the provisions of the Quebec *Business Corporations Act*, is an oil and gas exploration company. The Company has been trading on the TSX Venture Exchange since February 16, 2005 under the symbol PEA. The Company's oil and gas properties are at the exploration stage. The Company's long-term profitability is tied in part to the cost and success of the exploration programs and subsequent development. Pétrolia is attempting to determine whether its properties hold economically profitable reserves. Pétrolia's core business is exploring and developing oil and gas properties. In order to achieve its objectives, the Company has to form partnerships with other industry actors.

FORWARD-LOOKING STATEMENTS

Certain statements in this document are "forward-looking statements." Such statements relate to future events or future economic results anticipated by Pétrolia and are therefore subject to known and unknown risks, uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Accordingly, any decision to invest in Pétrolia shares should in no way be based on these forward-looking statements. The Company undertakes no obligation to update or revise any forward-looking statements.

ACTIVITIES

Pétrolia is a Quebec-based junior oil exploration company that focuses on territories where the chances of success are higher in order to provide short-term returns. Its activities take place primarily in the Gaspé region and on Anticosti Island, where the main oil potential in Quebec is located.

2012 HIGHLIGHTS

- Pétrolia and Québénergie increase their stake in Haldimand to 100%;
- Macasty comparable to Utica in Ohio;
- Secured $10 million in financing from Investissement Québec;
- Secured $5.75 million in financing from two banks (Laurentian Bank and National Bank Financial);
- Obtained three drilling permits and launched a drilling campaign for three wells in Gaspé (Bourque 1, Bourque 2 and Haldimand 4);
- Launched a campaign to conduct three stratigraphic surveys on Anticosti Island;
- Inked an agreement with the INRS-ETE to conduct hydrogeological assessments in the Haldimand sector and on Anticosti Island;
- Signed an agreement with Université du Québec à Chicoutimi (UQAC) to foster social acceptance and to define a sustainable development policy within the Company.

STRATEGY AND OUTLOOK

Pétrolia's mission is to discover marketable oil resources and to put them into production as soon as possible in order to ensure its profitability. In the pursuit of this mission, the Company never loses sight of the importance of environmental protection and community relations. To this end, Pétrolia holds rights in promising licences and associates with partners with the appropriate technical and financial resources. The Company relies on scientific knowledge before it installs its wells, which are drilled using best industry practices and techniques. Special attention is paid to building alliances with the communities where it carries out its activities.

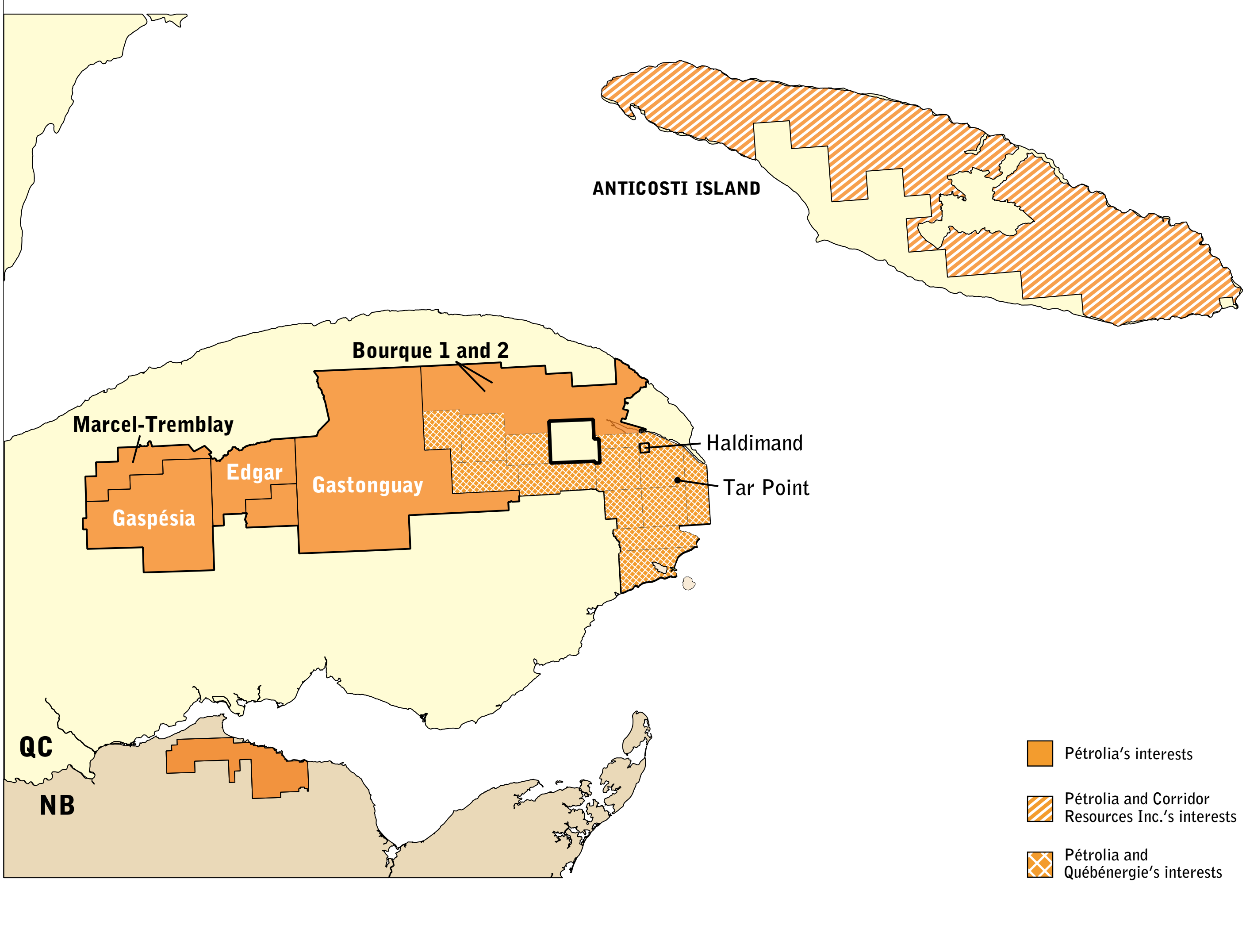
LICENCES AND PARTNERSHIPS

Pétrolia holds licences for and interests in over 14,000 km², i.e. close to 20% of the Quebec territory under lease.

On Anticosti Island, Pétrolia holds interests in 35 licences on over 6,000 km². Its interest is 25% in six of these licences and 50% in the remaining 29. Corridor Resources Inc. holds the remainder. The licences on Anticosti Island are covered by a joint operations agreement (JOA) under which Pétrolia is the operator of 26 of these licences.

In the first quarter of the previous fiscal year, Pétrolia entered into a partnership agreement with Québénergie, a subsidiary of SCDM (Paris), to speed up the development of the Haldimand deposit and surrounding territory. Each partner holds a 50% interest in the 13 licences covered by the agreement.

The following map shows the territories in which Pétrolia holds an interest as well as those covered by the partnership agreements.



A DOMINANT POSITION

In Quebec, oil resources are found in the east of the province, in the Gaspé region, on Anticosti Island, and perhaps in the Gulf of St. Lawrence. Since it was founded in 2003, the Company has acquired licences that cover more than 14,000 km^2, mainly in the Gaspé region and on Anticosti Island. These licences cover more than 70% of Quebec's land petroleum potential.

Main reasons behind Pétrolia's leadership position:

- Strategic decision to focus on oil exploration;
- Acquisition of licences conducive to oil discovery;
- Increase in oil and gas prices;
- The Company's level of activity, and;
- Pétrolia's innovative approach to the environment and community relations.

Based on the results obtained to date, the Company has a very promising future.

Pétrolia prides itself on being a responsible oil exploration company whose goal is to produce enough oil to meet a significant portion of Quebec's energy needs.

FINANCING

On May 16, 2012, Pétrolia announced the closing of a private placement totalling $15,750,004, in accordance with the conditions established at the time the placement was announced.

As part of this placement, Investissement Québec purchased 7,042,254 units (the "Units") of the Company at $1.42 per Unit for total gross proceeds of $10,000,000. Each Unit is made up of one common share and one half warrant; each whole warrant allows the bearer to acquire one common share of the Company at a price of $1.78 for a period of 36 months following the closing date.

In addition to Investissement Québec's private placement, the Company announced an agreement with Laurentian Bank Securities Inc. and National Bank Financial Inc. (the "Underwriters") under which the Underwriters agreed to purchase, on a bought deal private placement basis, 4,049,298 Units of the Company, at the same terms and conditions as the Investissement Québec private placement, for total gross proceeds of $5,750,004.

The total gross proceeds of these private placements are $15,750,004, which will be used mainly to finance the Company's drilling campaign. In summer 2012, the Company began drilling two wells on the Bourque property and one well on the Haldimand property. At the time of writing this report, the Pétrolia Bourque 1 and Bourque 2 wells had been completed and were awaiting production tests. Haldimand 4 will be drilled as soon as Bourque 2 is completed.

PROPERTIES AND WORKS

1. Haldimand property

Oil exploration first began in the Gaspé Peninsula in 1836, when locals discovered oil seeping out of the ground (*seepage*). Starting in 1860, the people of Gaspé regularly dug wells. By the middle of the 19th century, the Geological Survey of Canada had mapped the main geological formations and structures of the Gaspé Peninsula. It was not until 1884, however, that scientific and government reports confirmed the existence of oil in the region. Discovered in 2006 by Pétrolia, the Haldimand deposit is located on the peninsula of the same name on the outskirts of the town of Gaspé. The resources initially in place were estimated at 70 million barrels by an independent expert, who placed the quantity of recoverable oil at 7.7 million barrels.

1.1 Objectives

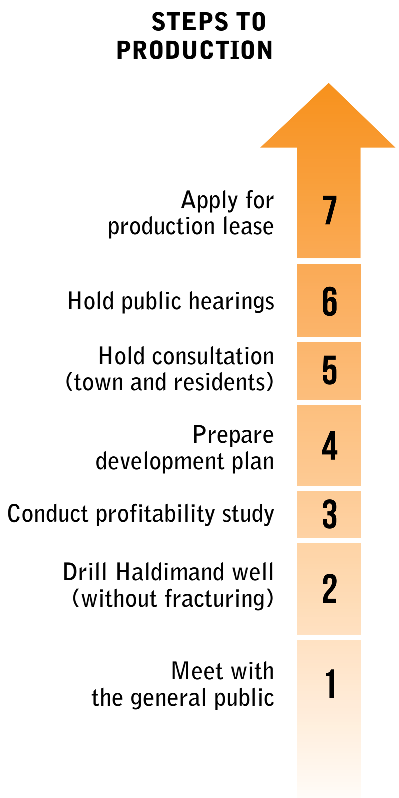
In accordance with the Company's strategy, putting the Haldimand deposit into production is the priority. Drilling a horizontal well to intercept as many natural fractures as possible appears to be the best way to achieve this objective in the short term.

1.2 Studies and projects

Following its laboratory and field studies and analyses, the Company now has a better understanding of the Haldimand reservoir and its production mechanism. The reservoir appears to be made up of a network of natural fractures that ensure the free flow of oil. This is an important discovery that allows Pétrolia to consider conventional exploitation.

The next well will be drilled in early 2013. This third well on this structure may confirm the assumption that conventional production for the deposit is possible and profitable.

The following diagram shows the main steps to put the deposit into production.



This past year, Pétrolia obtained two drilling licences for the Haldimand project. Pétrolia decided to focus on the Haldimand 4 well because it offers the best chance of success since the drilling will intercept the greatest number of natural fractures and provide additional information about the deposit.

It bears mentioning that in the first quarter of the year ended September 30, 2011, Pétrolia conducted an injectivity test on the Haldimand 1 well. This cleaned the investigated area of the well and increased the well's productivity. After the test was completed in December 2011, drilling was suspended pending the results of Haldimand 4. The injectivity test also provided a host of information on the characteristics of the Haldimand reservoir and confirmed the assumption that production will be assured by a network of natural fractures.

1.2.1 Studies

Studies were conducted in the first quarter to understand the deposit's natural permeability mechanism and how the oil and gas is distributed in the reservoir.

These studies were intended to determine the possible trajectories of new wells in order to optimize the natural productive potential. The drilling of the next well should provide a better understanding of the scope of the Haldimand structure and confirm the reserves.

The construction of the first version of a 3D digital model of the Haldimand deposit has now been completed. This model will be used to integrate the results of the next well on the structure (Haldimand 4) and to plan future work.

1.2.2 Work

Preparatory work for the drilling of Haldimand 4 was completed in the third quarter. Once Bourque 1 and 2 have been drilled, Precision Drilling's 501 rig will be brought to the site. This should be in early 2013.

Pétrolia received a drilling licence on June 4, 2012 from the Ministère des Ressources naturelles. This sub-horizontal well will reach a total depth of 1,000 metres and its sub-horizontal section will be 2,000 metres long. No fracturing is planned.

Under the agreement with Québénergie, the partners will assume most of Pétrolia's participation costs for the Haldimand 4 well. The private financing announced in April 2012 will be used to cover Pétrolia's share of the costs for this third well.

Pétrolia has launched a website for the Haldimand project where visitors can obtain information on the project and track the progress of the work: haldimand.petroliagaz.com.

1.3 Environmental work and studies

The Company is also working on a plan to acquire scientific and environmental monitoring information.

Pétrolia is working with scientists from various Quebec universities (INRS-ETE) to learn how its work impacts the physical environment. Begun in the first quarter, this project will continue over the next five years.

As such, in fall 2011, the INRS-ETE undertook a hydrogeological assessment of the Haldimand peninsula and set up an environmental monitoring mechanism for Pétrolia's oil operations. Several observation wells were completed to collect water samples and make geophysical logs in order to construct a hydrogeological model of the peninsula. As the following table shows, the first phase work has progressed significantly since the program was launched:

Monitoring of Haldimand hydrogeological work

Field Activities	Planned	Completed to Date
Observation wells	15	15
Hydraulic tests	17	11
Water samples and analysis	83	76
Environmental logs	13	13

The INRS-ETE will be responsible for designing the plan and monitoring the work. The information and results from this study and five-year monitoring plan will be released periodically.

Pétrolia is very proud of its innovative relationship with Quebec's universities, established from the earliest stages of its activities, as well as the universities' collaboration with industry stakeholders.

2. Bourque property

The Bourque property has potential for a major discovery. The Bourque project is very important to Pétrolia in view of the potential discoveries and the interest it raises in the Company's other properties in the Gaspé region where similar geological conditions prevail.

A 3D seismic survey undertaken by Pétrolia in 2008 suggested the presence of reef-type structures in the West Point Formation, an older geological formation than York River. This type of classic trap can store considerable quantities of oil and gas. One of the traps is a pinnacle reef, which is the drilling target of the Bourque 2 well. In Alberta, giant oilfields have been discovered in this type of structure, marking a turning point in that province.

2.1 Objectives

Located 70 km west of the town of Gaspé, the Bourque project offers an opportunity to discover a significant conventional reef-type deposit. The total depth of the targets ranges from 2,000 to 3,200 metres.

Target areas for two wells have been identified and drilling programs have been submitted to the Ministère des Ressources naturelles, which granted Pétrolia the necessary drilling licences in the third quarter.

2.2 Drilling

Drilling on Bourque 1 began July 19, 2012. The well, which has a measured depth of 3,140 metres, reached a vertical depth of 2,921 metres. Once drilling was completed, tubing was installed and a production test conducted over a 914-metre hole between depths of 1,832 and 2,746 metres. This area indicated oil and gas shows during drilling as well as during the different drill stem tests. For more information in this regard, see the press release of October 31, 2012.

Moreover, the data collected during the drilling of Bourque 1 and that will be compiled when Bourque 2 is drilled may suggest the presence of other exploration targets. However, more advanced analyses will be required in this regard.

In the interim, a natural gas discovery that will be tested in Bourque 1 will be a new exploration target for this project, which will generate significant regional economic spinoffs associated with raw material processing carried out by other industries that will be drawn to the region.

The main target of the Bourque 2 campaign, which began October 31, 2012, is a pinnacle reef in the West Point Formation, located at a depth of 2,150 metres.

Pétrolia has created a website for the Bourque project where visitors can obtain information and track the progress of the work: bourque.petroliagaz.com.

The Company is sensitive to the community's legitimate desire to derive benefits from the exploration work and potential oil production. Although the oil industry service sector is still in its infancy in Quebec, the economic spinoffs of drilling Bourque 1 amounted to $2.6 million for the province, of which more than 45% benefited workers and businesses in Gaspésie.

3. Anticosti property

On Anticosti Island, the partners have taken the initiative to evaluate the development of hydrocarbon source rock, which has attracted the most attention due to its immense potential.

In fact, the geological formations of Anticosti Island meet the four criteria sought in a petroleum system, namely highly oil-prone source rock, a good quality reservoir, impermeable cap rock, and the presence of numerous large-scale traps. This vast territory offers a number of potential drill targets.

3.1 Hydrocarbon source rock: a primary exploration target

The shale core sample taken from the Chaloupe 1 well drilled in summer 2010 at the Macasty Formation created a new oil play on Anticosti Island. This formation is the lateral equivalent of the Utica Formation in Ohio, which has garnered significant industry attention, showing that it is capable of producing substantial volumes of oil and gas.

The analyses performed by the laboratories of Weatherford, in Houston, and by Schlumberger Canada (Calgary) confirm that this formation is rich in oil and has the characteristics required to develop this potential exploration target.

On June 29, 2011, Pétrolia unveiled the estimate of the Macasty in-place oil reserves conducted by Sproule Associates Limited, a petroleum consulting firm based in Calgary. Sproule's best estimate for the total volume of initially-in-place oil in the Macasty Formation covered by licences in which Pétrolia has an interest is 30.9 billion barrels.

The Company's interests cover more than 6,000 km^2, i.e. 75% of the Island's total area. There is a 10% probability that this volume is equal to or greater than 48.2 billion barrels (high estimate), and a 90% probability that it amounts to at least 19.8 billion barrels.

In addition, on December 1, 2011, the partners released new analytical data indicating similarities with the Utica shale found in Ohio. The analyses were conducted at the lab facilities of a major, independent company with extensive experience in the exploration and production of hydrocarbon source rock. The results were more favourable than the ones released by the partners on February 9, 2011, confirming strong oil and gas production potential for the Macasty Formation.

The comparative study of the Macasty Formation and the Utica shale conducted in an earlier quarter confirmed the promising petrophysical characteristics of the Macasty shale, as the following table shows.

Parameters	Macasty, Quebec	Utica, Ohio
Mineralogy (%)	quartz 40-50 carbonate 5-30 clay 20-40	quartz 5-15 carbonate 40-60 clay 20-40
Depth (m)	40	40
Porosity (%)	2.4 to 5.1	2 to 4
Light oil saturation (%)	25.0 to 31.3	20
Total organic carbon (% weight)	2.38 to 5.74	2 to 4

3.2 Work

As it usually does, the Company developed a pre-drilling program to demonstrate Macasty's production capacity. The purpose of this program is to learn more about this formation by performing new lab analyses from existing data as well as from new samples.

This past year, Pétrolia developed a work program to determine the oil potential of the Macasty source rock that calls for:

1) Analyzing drill cuttings and core samples taken from the drill core library of the Ministère des Ressources naturelles to fine-tune the Macasty total organic carbon (TOC) distribution and thermal maturity (Ro) maps. This data will allow Pétrolia to pinpoint the best oil potential on the island as well as the best locations for future drilling;

2) Conducting three stratigraphic surveys to gather new cores in order to further analyze the organic matter;

3) Conducting a study of the hydrogeological system similar to the one conducted in Gaspésie. This study, also carried out by the INRS-ETE, required Pétrolia to drill 14 water wells on 10 sites.

3.3 The potential of conventional reservoir rock

Although the Company is focusing its exploration efforts on evaluating the potential of the Macasty source rock, conventional reservoirs will still be considered for drilling targets when planning future works.

Oil companies have been looking for oil in conventional structures on the island since 1960 but no conclusive results have been found to date.

Shell was the first to search for fault structures, followed by Hydro-Québec and Corridor Resources Inc. These types of structures, known in industry jargon as sags, were very successful in the Appalachian Basin (Ontario and New York State). While exploration by Pétrolia and Corridor in 2010 failed to meet expectations in terms of discoveries, it did confirm the existence of high-quality reservoirs.

For now, the Company would rather focus on developing Macasty's oil potential. However, it is not ruling out the possibility of evaluating this type of structural trap in the future.

3.4 Search for partners

The exploration program for the Macasty hydrocarbon source rock is currently in the early stages. More extensive exploratory work will be required to determine the potential for commercial recovery of resources in this Formation. Developing Anticosti Island will require considerable capital over the next few years. Finding partners with the requisite financial and technical resources is therefore a priority. Pétrolia is currently assessing its options in the best interests of its shareholders.

3.5 Environmental research

Pétrolia has confirmed that as a private-sector partner, it will support the work of the Université Laval's Anticosti Chair. A project has been developed to determine the impact of oil operations on the behaviour of white-tailed deer, an important economic and tourism resource for Anticosti Island.

The Anticosti Chair has received confirmation from the Natural Sciences and Engineering Research Council of Canada (NSERC) that its budget will be renewed. Pétrolia is proud to be associated with the Anticosti Chair's work. This research will provide the knowledge needed to adapt practices so as to promote eco-friendly development. Our contribution ($200,000 over five years) attests to the Company's engagement in the communities in which it operates.

In keeping with Pétrolia's desire to develop oil resources responsibly and the importance placed on water resources, the discovery of Macasty source rock justifies carrying out hydrogeological work with the INRS-ETE. Pétrolia is therefore supporting work on Anticosti Island that is similar to the work currently underway on the Haldimand Peninsula aimed at characterizing the regional hydrogeological system and monitoring the exploration work. Pétrolia's support of the INRS-ETE's work will make it possible to set up the initial infrastructure required for this study before the end of 2012. While not mandatory, this work is consistent with the responsible approach adopted by Pétrolia vis-à-vis the physical and social environments in which the Company operates.

This work is intended to enhance the Company's knowledge, more specifically:

- Whether there is a connection between the formation where oil resources are located and the subsurface hydrogeological system;
- If, and how, exploration activities, particularly drilling, affect water resources;
- What mitigation measures could be put in place to minimize the impact of oil operations on the hydrogeological system.

The INRS-ETE was invited to conduct this study in order to expand its scientific knowledge. Pétrolia's work offers the Institute an opportunity to conduct research and will enable scientists to determine whether oil exploration and production affect the quality of subsurface water.

More specifically, the three-year study will:

- Drill 14 observation wells on 10 sites and collect subsurface water samples to characterize water quality;
- Obtain a detailed characterization of the existing geological and hydrogeological conditions;
- Monitor the change in water quality during the work performed by Pétrolia and put in place a system to detect and correct potential problems;
- Integrate the results and make recommendations to minimize the potential impact of oil activities on subsurface water.

This study, which involves a partnership between academia, the oil industry and the regional community, is an innovative and responsible initiative. A hydrogeological study of this magnitude is a first on Anticosti Island.

Monitoring of hydrogeological work on Anticosti Island

Work	Planned	Completed to Date
Observation wells	14	14
Hydraulic tests	1	1
Water samples and analyses	37	0
Water table monitoring	2	0
Logging	10	7

4. Tar Point property

Drilled in 2009 and located 15 kilometres southeast of the Haldimand wells, Tar Point 1 bottomed out at 2,434 metres. This well crosses the entire York River Formation as well as part of the Indian Cove Formation. There were few signs of oil in the York River Formation but light crude was found in February 2010 during a production test on a fractured zone of the Indian Cove Formation.

Pétrolia is also developing a program for Tar Point to acquire scientific and environmental monitoring information. The hydrogeological study mentioned in the previous section also includes Tar Point. The following table shows the progress of the work in this sector.

Monitoring of hydrogeological work at Tar Point

Work	Planned	Completed to Date
Observation wells	3	3
Hydraulic tests	4	4
Water samples and analyses	6	6
Water table monitoring	1	1

4.1 Objectives

The objective is to demonstrate the Indian Cove Formation's capacity for commercial oil production. Since signs of oil have been systematically observed in this formation, this area offers an interesting exploration target in Gaspésie.

4.2 Studies and projects

The drilling results for Tar Point 1 confirm the oil potential of the Indian Cove Formation, which is a naturally fractured reservoir. The analysis of the injectivity test conducted in the first quarter has been completed. An evaluation of the various options that will allow exploitation of this formation have, however, been postponed to allow the Company to focus all its attention on the Gaspésie drilling campaign.

5. Other properties

In 2011 a seismic program was prepared to identify a drilling target on a potential trap discovered during a 2008 seismic survey. On July 16, 2012 the Ministère des Ressources naturelles issued the geophysical surveying licence required to carry out this work. The Company had planned to conduct the survey in 2012 but decided instead to focus its efforts on the Anticosti drilling campaign.

Given that thermal maturity studies indicate that gas is more likely to be discovered in this target, the Company made it a priority to develop the Haldimand property. However, the potential emergence of gas projects in the region could rekindle the Company's interest in the gas potential on the Gaspé property.

The status of licences in New Brunswick has not changed. Pétrolia will continue monitoring the situation in this province.

6. Changes to the legislative and regulatory framework

Pétrolia has not been affected by the results of the provincial election in September as the new government is also committed to fostering the development of Quebec's oil resources. Pétrolia's Management is monitoring the situation closely and plans to cooperate with the newly elected government so that it can put in place conditions conducive to developing Quebec's oil potential and creating an oil industry service sector.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TROLIA TAR
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TROLIA TAR
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TAR POINT
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ROLIA TAR

MANAGEMENT ANALYSIS
OF FINANCIAL INFORMATION

Operating results and cash position

In fiscal 2012, the Company's revenues consisted of interest income on short-term investments of $236,680 compared with $133,587 for fiscal 2011 and project management income of $22,340 compared to $44,854 last year, and rental income of $12,156 in 2012 only. Revenues from oil reservoir evaluations stood at $29,453, against $107,021 in 2011 and are recorded as a reduction in exploration expenses.

The increase in interest income stems from the increase in cash flow, achieved as a result of the financing completed in May 2012, which generated an inflow of $15,750,004, as well as the exercise of warrants and options totalling $804,344.

As at September 30, 2012, the Company had cash and cash equivalents of $10,242,262 and working capital of $13,447,802.

For fiscal 2012, the Company recorded a loss of $3,019,033, compared to a profit of $2,170,960 last year, primarily due to a gain on the disposal of interests in some of its licences.

Management does not believe it will have sufficient cash to meet its obligations and projected expenses until September 30, 2013. The Company can raise capital to offset the shortfall in a variety of ways, for example, by issuing new debt securities and equity, implementing new cost-cutting measures and finding new partners. However, a positive subsequent event is reflected at the Note 27 of the financial statement.

Analysis of operating and administrative expenses

Operating and administrative expenses rose $1,983,415, mainly due to an increase in the Company's exploration activities and costs associated with the social acceptability of its projects.

The main differences in the operating and administrative expenses are:

- Share-based payment: 1,341,000 options valued at $639,692 were granted in 2012, compared to 1,495,000 options in 2011 for a value of $500,208.
- Salaries and benefits: Operations-related payroll fell slightly. Administrative staff was hired to respond to the needs of the community and government authorities;
- Promotion and entertainment: Publicity and promotion expenses rose over last year, mainly due to activities associated with social acceptability.
- Professional fees: Fees were incurred for recruitment and to settle legal disputes.
- Rent: Lease expenses rose in 2012 mainly due to the expansion of the Québec City offices.
- Depreciation of capital assets: The increase in depreciation expenses is mainly due to the depreciation of four reservoirs and of leasehold improvements to new offices.

Selected annual information

	2012	2011	2010
	$	$	$
Revenue	271,176	178,441	26,102 [1]
Profit (loss)	(3,019,033)	2,170,960	(1,358,529)[1]
Basic net earnings (loss) per share	(0.051)	0.042	(0.028)[1]
Diluted net earnings (loss) per share	(0.051)	0.041	(0.028)[1]
Total assets	52,400,180	40,536,750	30,994,857 [1]
Dividend per share	N/A	N/A	N/A

[1] According to Canadian GAAP before the changeover to IFRS.

Summary of quarterly results

The information for the summary of quarterly results is based on International Financial Reporting Standards (IFRS).

	2012			2011				2010
	September	June	March	December	September	June	March	December
	$	$	$	$	$	$	$	$
Revenue	93,806	50,430	48,451	78,489	75,160	51,373	45,386	6,522
Net earnings	(494,129)	(675,032)	(699,230)	(1,150,642)	(443,251)	(672,511)	(512,133)	3,485,658
Net earnings per share								
Basic	(0.010)	(0.012)	(0.013)	(0.022)	(0.010)	(0.013)	(0.035)	0.069
Diluted	(0.010)	(0.012)	(0.013)	(0.022)	(0.010)	(0.013)	(0.035)	0.057

Revenue essentially consists of interest earned and project revenue for each quarter. Operating and administrative expenses were fairly stable from quarter to quarter. The main changes in quarterly losses or earnings are explained as follows:

2010 – December Recognition of share-based payment of $82,800 and a $5,158,607 gain on disposal of interests in certain licences;

2011 – February Recognition of share-based payment of $71,400;

2011 – May Recognition of share-based payment of $160,750;

2011 – September Restatement of all share-based payment for the year using the graded vested method; this restatement had a non-monetary impact of $185,258;

2011 – December Recognition of share-based payment of $558,992;

2012 – February Recognition of share-based payment of $80,700.

Fourth quarter

The fourth quarter closed with a loss of $494,129 ($0.01 per share). Revenue for the quarter stood at $93,806.

Related party transactions

The Company's related parties include other related parties and key management personnel, as described below.

Unless otherwise indicated, none of the transactions involve special terms or conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

Transactions with key management personnel

Key management personnel remuneration includes the following expenses:

For the year ended September 30	2012	2011
	$	$
Short-term employee benefits:		
Salaries and benefits	685,882	413,589
Directors' fees	126,817	109,133
Total short-term benefits	812,699	522,722
Share-based payments	473,206	451,327
Total remuneration	1,285,905	974,049

During the 2012 reporting period, key management exercised 547,500 (312,500 – 2011) options granted under the share-based compensation plan.

Related parties

The Company entered into the following transactions with two companies whose main officer (holding a minority interest) also serves on Pétrolia's board:

For the year ended September 30	2012	2011
	$	$
Statement of financial position:		
Exploration and evaluation assets	5,300	–
Statement of comprehensive income:		
Other expenses	9,110	9,426

Accounts receivable from these companies is $0 on September 30, 2012 (September 30, 2011 – $37,500; October 1, 2010 – $35,915).

The Company entered into the following transactions with a director acting as a consultant for the Company:

For the year ended September 30	2012	2011
	$	$
Statement of financial position:		
Exploration and evaluation assets	2,063	3,469

The balance owing this director is $0 on September 30, 2012 (September 30, 2011 – $0; October 1, 2010 – $0).

The Company entered into the following transactions with a company in which a director is a minority shareholder:

For the year ended September 30	2012	2011
	$	$
Statement of financial position:		
Exploration and evaluation assets	9,500	–

The balance owing this company is $0 on September 30, 2012.

The Company entered into the following transactions with a company whose director also sits on Pétrolia's board:

For the year ended September 30	2012	2011
	$	$
Statement of comprehensive income:		
Salaries and benefits	–	20,438
Office supplies and transportation	–	1,208

Accounts receivable from this company is $2,516 on September 30, 2011 (October 1, 2010 – balance due: $161).

The Company entered into the following transactions with a close relative of a member of Management, who provided services to the Company:

For the year ended September 30	2012	2011
	$	$
Statement of financial position:		
Property, plant and equipment	10,685	49,021
Statement of comprehensive income:		
Office maintenance	11,605	–

The balance owing to this supplier is $0 on September 30, 2012 (September 30, 2011 – $0; October 1, 2010 – $0).

These transactions took place in the normal course of business and were measured at their exchange value, which is the consideration established and accepted by related parties.

Commitments

Under the terms of exploration licences granted by the Ministère des Ressources naturelles du Québec and New Brunswick's Ministry of Natural Resources, the Company has committed to pay fees in the amount of $484,552 by 2016. The following minimum payments due during the upcoming fiscal years are as follows:

	2013	2014	2015	2016
	$	$	$	$
	121,138	121,138	121,138	121,138

In addition, the Company must perform work on its properties in Quebec on a yearly basis, for which the minimum costs vary with the age of the licences; the cost is $0.50 per hectare for the first year of the licence and increases annually by $0.50, ultimately reaching $2.50 per hectare as of the fifth year. Based on the work performed as at September 30, 2012, and excluding work that will be performed by 2017 (licence renewal date), the minimum work required amounts to $248,698 in 2015, $935,753 in 2016 and $2,000,041 in 2017.

The adoption of Bill 18 in Quebec suspends some of these statutory work obligations for up to three years while at the same time extending the validity of all the licences for the same period. Pétrolia may, however, still continue its activities despite the suspended obligation.

The Company has signed leases with three companies for the rental of offices and a house until 2016. The balance of the commitments under these leases, excluding escalation clauses, is $1,027,472.

The minimum payments required in the coming years are as follows:

	2013	2014	2015	2016
	$	$	$	$
	289,870	276,600	276,600	184,402

The Company has undertaken to support the renewal of the NSERC-Anticosti Forest Products Industrial Research Chair by contributing $200,000 over a five-year period. A portion of these costs could potentially be assumed by a partner.

The minimum payments due over the next four years are as follows:

	2013	2014	2015	2016
	$	$	$	$
	40,000	40,000	40,000	40,000

Financial instrument disclosure

Risk management policy

The Company's financial assets and liabilities expose it to various risks. The following analysis provides an assessment of the risks as at September 30, 2012, the statement of financial position date:

Credit risk

Financial instruments that potentially subject the Company to credit risk consist primarily of cash and cash equivalents and trade and other receivables. The Company's cash and cash equivalents are held with or are issued by first-class financial institutions. The majority of receivables are sums owed by governments, partners and related parties. Therefore, Management considers the risk of non-performance on these instruments to be very minimal.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due or do so only at excessive cost. The Company finances its growth by issuing shares and selling interests in some of its oil assets. One of Management's main financial objectives is to maintain an optimal level of liquidity by actively managing its exploration activities. All of the Company's financial liabilities have a maturity of less than one year.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market conditions. There are three types of market risk: interest rate risk, currency risk, and other price risks. The Company is exposed to interest rate risk.

Interest rate risk

Interest rate risk refers to the impact of interest rate fluctuations on the value of investments.

The Company is exposed to interest rate risk on its fixed-rate financial instruments. For the year ended September 30, 2012, an increase or decrease of 1% in the interest rates in effect at that date, with all other variables remaining equal, would have generated a profit or loss of $86,006 (2011 - $39,480).

Fair value

The fair value of investments is determined as follows:

Guaranteed investment certificates: Given their recent issuance, the fair value corresponds to their cost.

Money market fund: Given its short-term maturity, the fair value corresponds to its cost.

As regards the loan, the carrying value approximates the fair value due to the variable interest rate on the debt.

Fair value hierarchy

Financial instruments recognized at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements.

The three levels of the fair value hierarchy are:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities: cash is found at this level.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices): cash equivalents and investments are found at this level.

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

There was no transfer in the valuation of financial assets between levels 1 and 2 during the period.

Judgments, estimates and assumptions

For a complete description of judgments, estimates and assumptions, see Note 5 of the Financial Statements.

Future changes in accounting policies

For a complete description of future changes in accounting policies, see Note 3 of the Financial Statements.

Significant accounting policies and transition to IFRS

For a complete description and detailed presentation of the significant accounting policies used by the Company and the transition to IFRS, see Notes 4 and 26 of the Financial Statements.

Capital management

For a complete description of the Company's capital management policy, see Note 20 of the Financial Statements.

Other information

a) Supplemental documents

Certain supplemental documents, including prior management reports and press releases, are available online at www.sedar.com in the documents section or on Pétrolia's website at www.petroliagaz.com.

b) Regulation 51-102 Section 5.2

Exploration expenses of the fiscal year ended September 30, 2012 are detailed as follows:

	Geology	Geophysical Surveys	Drilling	Analysis	Stimulation	General Expenses	Options	Provisions	Site Maintenance	Total
	$	$	$	$	$	$	$	$	$	$
Anticosti	347,065	64,621	640,243	60,250	–	10,403	38,910	(37,500)	1,080	1,125,072
Gastonguay	320	–	–	–	–	2	77	–	–	399
Gaspésia Marcel-Tremblay Edgar	11,053	21,088	–	–	–	1,393	6,433	–	–	39,967
Gaspé	63,154	42,326	6,333	1,185	560	92,147	6,107	–	84	211,896
Bourque	45,635	4,014	7,391,229	8,190	–	39,879	3,154	–	7,458	7,499,559
Haldimand	391,588	100,020	434,265	3,780	928,157	49,781	62,434	41,992	132,997	2,145,014
Tar Point	11,027	160	–	–	292,625	5,818	14,815	–	4,099	328,544
Dalhousie	2,818	803	1,500	–	–	5,348	1,054	–	–	11,523
	872,660	233,032	8,473,570	73,405	1,221,342	204,771	132,984	4,492	145,718	11,361,974

Deferred exploration expenses for the fiscal year ended September 30, 2011 are detailed as follows:

	Geology	Geophysical Surveys	Drilling	Analysis	Completion	General Expenses	Oil Reservoir	Options	Resource Evaluation	Site Maintenance	Total
	$	$	$	$	$	$	$	$	$	$	$
Anticosti	118,904	14,107	757,476	2,448	105	34,735	–	11,816	97,057	–	1,036,648
Gastonguay	548	–	–	–	–	540	–	77	–	–	1,165
Gaspésia Marcel-Tremblay Edgar	173,755	804	–	–	–	24,115	–	160	–	–	198,834
Gaspé	25,147	52,109	50,142	20	5,316	47,287	–	5,770	–	–	185,791
Bourque	72,563	2,319	9,225	–	–	4,113	–	616	–	–	88,836
Haldimand	608,676	492,850	263,469	595	49,498	113,315	57,337	8,715	–	220,273	1,814,728
Tar Point	29,776	4,237	153,942	–	5,285	4,329	–	12,910	–	46,172	256,651
Dalhousie	4,523	7,463	7,216	40	–	11,283	–	1,261	–	–	31,786
	1,033,892	573,889	1,241,470	3,103	60,204	239,717	57,337	41,325	97,057	266,445	3,614,439

c) Regulation 51-102 Section 5.3

Information on shares issued, warrants and share options as at December 11, 2012:

Common shares: 66,645,750 have been issued and are outstanding.

Share options outstanding: The share options granted to directors, members of senior management, employees and service providers are as follows:

- 400,000 options exercisable at a price of $0.60 per share until February 12, 2013;
- 327,500 options exercisable at a price of $1.25 per share until July 7, 2013;
- 60,000 options exercisable at a price of $0.74 per share until May 21, 2014;
- 270,000 options exercisable at a price of $0.89 per share until February 25, 2015;
- 672,500 options exercisable at a price of $0.50 per share until December 8, 2015;
- 75,000 options exercisable at a price of $1.31 per share until February 25, 2016;
- 500,000 options exercisable at a price of $1.69 per share until May 18, 2016;
- 1,266,000 options exercisable at a price of $1.52 per share until December 4, 2016;
- 75,000 options exercisable at a price of $1.51 per share until February 22, 2017.

Management's responsibility for financial information

Management is responsible for Pétrolia's financial statements, which have been approved by the board of directors on recommendation of the audit committee. The financial statements have been prepared by Management in accordance with International Financial Reporting Standards (IFRS) and audited by the Company's auditors. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

Rimouski, December 11, 2012

On behalf of the Board

André Proulx, President

ENVIABLE EXPERTISE

Through its work, Pétrolia has acquired technical expertise and knowledge that few in Quebec can match.

AUDITOR'S REPORT

To the shareholders of Pétrolia Inc.

We have audited the accompanying financial statements of Pétrolia Inc., which comprise the statements of financial position as at September 30, 2012, September 30, 2011, and October 1, 2010, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended September 30, 2012 and September 30, 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements, in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, wheter due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Pétrolia Inc. as at September 30, 2012, September 30, 2011 and October 1, 2010, and its financial performance and its cash flows for the years ended September 30, 2012 and September 30, 2011, in accordance with International Financial Reporting Standards.

Observation

Without qualifying our opinion, we draw attention to Note 1 in the financial statements, which provides the facts and circumstances indicating the existence of material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern in the long term, without, however, compromising its short-term existence.

Mallette

Mallette[1]
L.L.P.
Rimouski, Canada

December 11, 2012

[1] CPA auditor, CA, public accounting licence No. A104110

STATEMENTS OF FINANCIAL POSITION (in Canadian dollars)

As at September 30	2012	2011	As at October 1 2010
	$	$	$
ASSETS			
Current assets			
Cash and cash equivalents (Note 6)	10,242,262	8,151,034	1,949,055
Receivables (Note 7)	5,086,302	4,617,371	2,920,900
Prepaid expenses	113,074	141,158	70,372
Inventories	51,470	61,619	–
Investments cashable during the next fiscal year (Note 8)	1,080,000	930,000	754,331
	16,573,108	13,901,182	5,694,658
Non current			
Deposit on exploration costs	2,100,000	–	–
Fixed assets (Note 9)	1,031,975	931,779	213,159
Exploration and evaluation assets (Note 10)	32,695,097	25,703,789	25,087,040
	35,827,072	26,635,568	25,300,199
	52,400,180	40,536,750	30,994,857
LIABILITIES			
Current liabilities			
Trade and other payables (Note 11)	3,027 306	1,469,518	822,339
Loan (Note 12)	–	2,243,310	2,243,310
Provision for sites restoration (Note 13)	98,000	135,500	–
	3,125,306	3,848,328	3,065,649
Non current			
Deferred lease incentives	100,469	112,273	–
Provision for sites restoration (Note 13)	287,938	233,678	–
Deferred taxes liabilities (Note 25)	1,224,584	2,239,130	1,323,583
	1,612,991	2,585,081	1,323,583
	4,738,297	6,433,409	4,389,232
EQUITY			
Capital stock (Note 14)	51,378,040	35,432,271	30,416,651
Contributed surplus	3,026,923	2,395,117	2,083,981
Retained earnings	(6,743,080)	(3,724,047)	(5,895,007)
	47,661,883	34,103,341	26,605,625
	52,400,180	40,536,750	30,994,857

Going concern basis (Note 1)
Agreements, commitments and contingencies (Notes 9, 22 and 23)
The accompanying notes are an integral part of these financial statements.

On behalf of the Board

(signed)
André Proulx, Director

(signed)
Jacques L. Drouin, Director

STATEMENTS OF COMPREHENSIVE INCOME (in Canadian dollars)

As at September 30	2012	2011
	$	$
REVENUE		
Rental income	12,156	–
Project management	22,340	44,854
	34,496	44,854
Administrative expenses (Appendix A)	3,622,835	2,163,352
Operating expenses (Appendix B)	–	–
Financial income and expenses (Appendix C)	(209,667)	(35,882)
	3,413,168	2,127,470
LOSS BEFORE OTHER ITEMS AND TAXES	(3,378,672)	(2,082,616)
OTHER ITEMS		
Gain on disposal of interest in certain licences	–	5,158,607
Write-off of exploration and evaluation assets	(494,486)	–
LOSS BEFORE INCOME TAXES	(3,873,158)	3,075,991
Deferred tax (Note 25)	(854,125)	905,031
NET EARNINGS AND COMPREHENSIVE INCOME FOR THE YEAR	(3,019,033)	2,170,960
BASIC NET LOSS PER SHARE (Note 18)	(0.051)	0.042
DILUTED NET LOSS PER SHARE (Note 18)	(0.051)	0.041

STATEMENTS OF CHANGES IN EQUITY (in Canadian dollars)

	Share capital	Contributed surplus	Retained earnings	Total equity
	$	$	$	$
BALANCE AS AT OCTOBER 1, 2010	30,416,651	2,083,981	(5,895,007)	26,605,625
Issuance of shares for debt settlement	33,750	–	–	33,750
Warrants exercised	4,505,472	–	–	4,505,472
Exercise of share options	487,748	(189,072)	–	298,676
Share-based payments	–	500 208	–	500,208
Share issuance costs	(834)	–		(834)
Deferred taxes related to share issuance costs	(10 516)	–	–	(10,516)
Net earnings and comprehensive income	–	–	2,170,960	2,170,960
BALANCE AS AT SEPTEMBER 30, 2011	35,432,271	2,395,117	(3,724,047)	34,103,341
Issuance of shares	15,750,004	–	–	15,750,004
Warrants exercised	344,136	–	–	344,136
Exercise of share options	460,208	(181,358)	–	278,850
Share-based payments	–	639,692	–	639,692
Broker warrants		173,472	–	173,472
Share issuance costs	(769,000)	–	–	(769,000)
Deferred taxes related to share issuance costs	160,421	–	–	160,421
Net earnings and comprehensive income	–	–	(3,019,033)	(3,019,033)
BALANCE AS AT SEPTEMBER 30, 2012	51,378,040	3,026,923	(6,743,080)	47,661,883

STATEMENTS OF CASH FLOWS (in Canadian dollars)

As at September 30	2012	2011
	$	$
OPERATING ACTIVITIES		
Net earnings	(3,019,033)	2,170,960
Items not affecting cash:		
Depreciation of fixed assets	117,125	69,362
Deferred tax	(854,125)	905,031
Share-based payments	506,709	458,883
Depreciation of deferred lease incentives	(11,804)	27,273
Write-off of exploration and evaluation assets	494,486	–
Accretion expense	12,268	–
Gain on disposal of interest in certain licences	–	(5,158,607)
	(2,754,374)	(1,527,098)
Net change in non-cash items related to operations:		
Receivables	(1,002,632)	(117,952)
Prepaid expenses	28 084	(37,036)
Inventories	10 149	(61,619)
Trade and other payables	446,690	409,192
	(517,709)	192,585
	(3,272,083)	(1,334,513)
FINANCING ACTIVITIES		
Share capital issuance	16,372,990	4,804,148
Share issuance costs	(595,528)	(834)
Cash lease incentive	–	85,000
Repayment of bank debt	(2,243,310)	–
	13,534,152	4,888,314
INVESTING ACTIVITIES		
Acquisition of investments	(150,000)	(175,669)
Acquisition of fixed assets	(380,438)	(836,703)
Disposal of interest in certain licences	–	6,690,000
Expenses for disposal of interest in certain licences	–	(725,333)
Acquisition of oil and gas properties	(1,747,414)	(101,436)
Deposit on exploration costs	(2,100,000)	–
Increase in deferred exploration expenses net of deductions	(3,792,989)	(2,202,681)
	(8,170,841)	2,648,178
INCREASE IN CASH AND CASH EQUIVALENTS	2,091,228	6,201,979
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,151,034	1,949,055
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 6)	10,242,262	8,151,034
CASH AND CASH EQUIVALENTS ARE MADE UP OF THE FOLLOWING:		
Cash (overdraft)	(1,872,572)	695,699
Guaranteed investment certificates, redeemable at any time	4,254,331	7,454,331
Money market fund	7,860,503	1,004
	10,242,262	8,151,034

Additional cash flow information (Note 24)

NOTES TO FINANCIAL STATEMENTS

For the years ended September 30, 2012 and September 30, 2011

1. Instrument of incorporation and nature of activities

The Company, incorporated under Part IA of the *Québec Companies Act*, and governed by the provisions of the Quebec *Business Corporations Act*, is an oil and gas exploration company. Its shares have been listed on the TSX Venture Exchange since February 16, 2005, under the symbol PEA. Its head office is located at 212 De la Cathédrale Avenue, Rimouski, Quebec G5L 5J2 and its principal place of business is located at 305 Charest Boulevard East, 10th Floor, Québec City, Quebec G1K 3H3.

The Company has not yet established whether its oil and gas properties include economically feasible reserves. Recovering oil and gas property and exploration costs hinges on the existence of economically feasible reserves, the ability of the company to obtain financing to complete the exploration and development of its properties, and upon future profitable construction and production or proceeds from the disposal of properties.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. In assessing whether the going concern assumption is appropriate, Management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. Management is aware in making its assessment of material uncertainties related to events and conditions that cast a significant doubt upon the Company's ability to continue as a going concern and accordingly, the appropriateness of the use of IFRS applicable to a going concern, as described in the following paragraph. These financial statements do not reflect the adjustment to the amount of assets and liabilities, expenses and financial position classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

The Company recorded comprehensive income of ($3,019,033) for the year ended September 30, 2012, and has accumulated retained earnings of ($6,743,080) at September 30, 2012. In addition to ongoing working capital requirements, the Company must secure sufficient funding to meet its obligations and existing commitments for exploration and evaluation programs and pay general and administration costs. As at September 30, 2012, the Company had working capital of $13,447,802, including cash and cash equivalents of $10,242,262. Management does not believe that these funds will be sufficient to meet the Company's obligations and budgeted expenditures through September 30, 2013. Any funding shortfall may be met in a number of ways in the future, including but not limited to the issuance of new debt or equity instruments, additional cost-cutting measures and/or the introduction of new partners, on which the Company is presently working.

If Management is unable to secure new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in these financial statements. However, a positive subsequent event is reflected at the Note 27.

The financial statements for the year ended September 30, 2012 (including the comparative financial statements) were approved for issue by the Board of Directors on December 11, 2012.

2. Basis of preparation and adoption of IFRS

Before October 1, 2011, the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles (GAAP), as defined in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and to require publicly accountable enterprises to apply these standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Company's first annual financial statements prepared in accordance with IFRS as issued by the IASB. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These financial statements have been prepared in compliance with IFRS. The Company is also in compliance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*. Subject to certain transition elections and exceptions disclosed in Note 26, the Company has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at October 1, 2010 throughout all periods presented, as if these policies had always been in effect. Note 26 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's financial statements for the year ended September 30, 2011, prepared under Canadian GAAP.

3. Future changes in accounting policies

IFRS annual improvements

As part of its annual improvement process, in August 2012 the IASB published amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IAS 1 Presentation of Financial Statements, IAS 16 *Property Plant and Equipment* and IAS 32 *Financial Instruments: Presentation*. These improvements clarify the guidance and wording or make relatively minor changes to standards. The amendments apply to annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet evaluated the impact of these improvements on its financial statements.

IFRS 7 – Financial Instruments: Disclosures

In October 2010, the IASB amended IFRS 7 to require additional disclosure for transfers of financial assets. The additional information will provide users of financial statements with a better understanding of the relationship between transferred financial assets that are not derecognized in their entirety and associated liabilities. This additional information will allow evaluation of the nature of, and risks associated with the Company's continuing involvement in the derecognized financial asset. These amendments apply to annual periods beginning on or after July 1, 2011, with early adoption permitted. The Company has not yet evaluated the impact of these improvements on its financial statements.

IFRS 7 – Financial Instruments: Disclosures and IAS 32 – Financial Instruments: Presentation

In December 2011, the IASB further amended IFRS 7 *Financial Instruments: Disclosures* and amended IAS 32 *Financial Instruments: Presentation* pertaining to the offsetting of assets and liabilities. Essentially, the amendments address certain inconsistencies in the application of the existing offsetting criteria. The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the fact that certain gross settlement mechanisms may be considered equivalent to a net settlement. The amendments to disclosure requirements are such that IFRS and US GAAP now impose the same disclosure requirements to help financial statement users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. The amendments apply to annual periods beginning on or after January 1, 2014, with early adoption permitted. The Company has not yet evaluated the impact of this standard on its financial statements or determined whether it will opt for early adoption.

IFRS 9 – Financial Instruments

IFRS 9 – *Financial Instruments* will be published in phases to replace IAS 39 *Financial Instruments: Recognition and Measurement* and applies to annual periods beginning on or after January 1, 2015, with early adoption permitted.

To date, chapters have been published on recognition, classification, measurement and derecognition of financial assets and liabilities. These chapters deal with the classification and measurement of assets and replace the multiple category and measurement models in IAS 39 with a new mixed measurement model with only two categories, i.e. amortized cost and fair value. IFRS 9 also replaces the models for measuring equity instruments, which must be recognized at fair value either through net earnings or comprehensive income. Where such equity instruments are measured at fair value through comprehensive income, dividends must be recognized in net earnings. The Company has not yet evaluated the impact of this standard on its financial statements or determined whether it will opt for early adoption.

IFRS 11 – Joint arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. The standard requires the use of a single method to account for joint operations. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. The new standard applies to annual periods beginning on or after January 1, 2013. Early adoption is permitted, in which case an entity must also apply IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities*, and the amended versions (in 2011) of IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. The Company has not yet evaluated the impact of this standard on its financial statements or determined whether it will opt for early adoption.

NOTES TO FINANCIAL STATEMENTS

For the years ended September 30, 2012 and September 30, 2011

IFRS 12 – Disclosure of interests in other entities

IFRS 12 integrates, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. As a consequence of these new standards, the IASB also published, amended and retitled IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. The new requirements will apply to annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet evaluated the impact of this standard on its financial statements or determined whether it will opt for early adoption.

IFRS 13 – Fair value measurement

In May 2011, the IASB issued IFRS 13, which establishes a single source of guidance for fair value measurements under IFRS. IFRS 13 defines fair value, provides guidance on measurement and introduces certain disclosure requirements. IFRS 13 will apply to annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet evaluated the impact of this standard on its financial statements or determined whether it will opt for early adoption.

IAS 1 – Presentation of financial statements

In June 2011 the IASB amended IAS 1, changing the presentation of items contained in comprehensive income and the names of certain statements. The amendment to IAS 1 applies to annual periods beginning on or after July 1, 2012, with early adoption permitted. The application of this amendment will have no material impact on the financial statements.

4. Significant accounting policies

The significant accounting policies used in preparing these financial statements are summarized below.

4.1 Presentation of financial statements in accordance with IAS 1

The statements are presented in accordance with IAS 1 *Presentation of Financial Statements*.

In accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*, the Company has three statements of financial position in its first IFRS financial statements. For subsequent annual periods, the Company will present comparative figures for two periods in the statement of financial position when it: i) applies an accounting policy retrospectively, ii) makes a retrospective restatement of items in its financial statements or iii) reclassifies items in the financial statements.

4.2 Measurement basis

The financial statements are prepared using the historical cost method, except for certain financial instruments that are recognized at fair value.

4.3 Revenue recognition

Investment operations are recognized on the date of operation and derived income is recorded on an accrual basis. Revenue from project management is recognized as projects are realized. Rental revenue is recorded when the services are rendered.

4.4 Inventories

Inventories are measured at the lower of cost and net realizable value using the average cost method.

4.5 Financial instruments

The Company classifies its financial instruments by categories based on their nature and specification. Management determines the classification when the instruments are initially recognized, which is normally the date of the transaction.

All financial assets, except those at fair value through net earnings, are tested for impairment annually and written down when there is evidence of impairment based on certain specific criteria mentioned further on.

All income and expenses associated with financial instruments are presented in "Financial income and expenses."

A) Financial assets at fair value through net earnings

All financial instruments in this category meet the definition of financial assets held for trading. A financial asset falls into this category if acquired principally for the purpose of selling in the short term. Derivatives are included unless designated for hedging purposes. Instruments in this category include cash and cash equivalents and guaranteed investment certificates.

Financial instruments in this category are initially and subsequently measured at fair value, with directly attributable transaction costs and changes in fair value recognized through net earnings. Instruments in this category are presented in “Current assets.”

B) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented in “Current assets” when they are recoverable within 12 months of the end of the review period; otherwise, they are classified as “Non-current assets.” The Company includes receivables in this category.

Financial instruments included in this category are initially measured at fair value plus directly attributable transaction costs and subsequently at amortized cost using the effective interest method.

If there is objective evidence that an individual loan may be impaired, the estimated recoverable amount of the loan is determined and an impairment loss is recognized for the difference between the recoverable amount and the carrying amount as follows: the carrying amount of the loan is reduced to its discounted estimated recoverable amount (excluding future credit losses that have not been incurred), discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced by using an allowance account. When loans and receivables are deemed to be uncollectible, they are written off against the allowance. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor’s credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal is limited to the amortized cost that would have been obtained on the date of reversal of the financial asset’s impairment if the impairment had not been recognised. The amount of the impairment loss and the amount of the reversal are recognized through net earnings.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

C) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such when initially recognized or that are not classified in any of the other categories. They are presented in “Current assets” when they are recoverable within 12 months of the end of the review period; otherwise, they are classified as “Non-current assets.” The Company has no financial instruments in this category.

Financial instruments included in this category are initially measured at fair value plus directly attributable transaction costs and subsequently at fair value, with unrealized gains and losses recognized in other comprehensive income.

However, when a decline in the fair value of an available-for-sale asset has been recognized in other comprehensive income and there is objective evidence of a significant or prolonged decline, the cumulative loss recognized in other comprehensive income is removed from equity and recognized in net earnings even though the financial asset has not been derecognized.

A loss in fair value recognized through earnings for an equity investment classified as available-for-sale is not reversed through net earnings. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale, other than an equity instrument, increases, and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through net earnings.

When the asset is disposed of or when an impairment charge is recorded, the cumulative gains or losses in other comprehensive income are reclassified to net earnings and presented separately in the statement of comprehensive income.

D) Other financial liabilities

Financial instruments included in this category are initially measured at fair value, net of transaction costs, and subsequently at amortized cost. The difference between the initial carrying amount and redemption value is recognized through net earnings over the term of the debt using the effective interest method. They are presented in “Current liabilities” when repayable in the 12 months following the end of the period; otherwise, they are classified in “Non-current liabilities.” This item includes trade and other payables, and loans.

NOTES TO FINANCIAL STATEMENTS

For the years ended September 30, 2012 and September 30, 2011

4.6 Basic and diluted earnings per share

Basic net earnings per share are calculated by dividing the net earnings attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are calculated by adjusting the profit or loss attributable to equity shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. Dilutive potential ordinary shares were converted into ordinary shares at the beginning of the period or, if later, at the date of issue of the potential ordinary shares.

For the purpose of calculating diluted earnings per share, an entity shall assume the exercise of dilutive options and warrants of the entity. The assumed proceeds from these instruments shall be regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the periods presented. For the year ended September 30, 2012, the diluted earnings per share are equal to the basic earnings per share due to the anti-dilutive effect of the share options and the warrants.

4.7 Cash and cash equivalents

The Company's cash and cash equivalents are made up of cash and short-term investments with a term equal to or less than three months from the date of issue or that are highly liquid, readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

4.8 Exploration and evaluation assets

Exploration and evaluation assets include the cost of acquiring petroleum rights and expenses related to the exploration and evaluation of oil and gas properties. These assets are recognized as intangible assets and carried at cost less any impairment loss, government subsidies, refundable rights, and contributions from partners.

Costs incurred before the legal rights are acquired to undertake exploration and evaluation activities are recognized through net earnings when they are incurred. Petroleum rights and expenses related to exploration and evaluation activities are capitalized on a property-by-property basis pending determination of the technical feasibility and commercial viability of the project. No depreciation is recognized during the exploration and evaluation phase. Costs capitalized include topographical, geological, geochemical and geophysical studies, exploration drilling, trenching, sampling, activities related to the evaluation of the technical feasibility and the commercial viability of extracting a petroleum resource, and share-based payments related to exploration and evaluation assets.

Whenever a project's viability is not guaranteed or if a project has been abandoned, the capitalized amount is written down to its recoverable amount and the difference immediately recognized in net earnings.

When the technical feasibility and commercial viability of extracting a resource is demonstrable, the exploration and evaluation assets related to the property are transferred to the "*Oil and gas assets under construction*" category. Before the reclassification, exploration and evaluation assets are tested for impairment, and any impairment loss is recognized through net earnings before reclassification.

After the exploration and evaluation assets are transferred to "*Oil and gas assets under construction,*" all subsequent costs related to construction, installation and completion of equipment and facilities are capitalized in "*Oil and gas assets under construction.*" Once development is completed, all assets in this category are transferred to the "*Oil and gas assets*" category and are depreciated over their useful lives. To date, no petroleum resources have proven to be commercially viable.

Although the Company has taken steps to secure title to the oil and gas properties in which it holds an interest in accordance with industry practices for the current stage of exploration of such properties, these steps do not guarantee the validity of the titles since titles to such properties may be subject to unregistered prior agreements and may not be in compliance with regulatory requirements.

Disposal of interest in connection with option agreements

When disposing of interests in option agreements, the Company does not recognize exploration and evaluation expenses incurred by the acquirer regarding the property. The cash consideration received from the acquirer is credited against the costs previously capitalized to the property, and the surplus is recognized through net earnings as a gain on the disposal of the exploration and evaluation assets.

4.9 Fixed assets

Fixed assets are recorded at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes all costs directly attributable to the acquisition. Recognition of costs in the carrying amount of an item of fixed assets ceases when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by Management. They are depreciated over their expected useful lives according to the following methods and periods or annual rates:

	Method	Rate and Period
Leasehold improvement	Straight line	3 years
Office and field equipment	Declining balance	20%
IT equipment	Declining balance	30%
Rolling stock	Declining balance	30%
Reservoirs	Declining balance	20%
Land	N/A	N/A

Material estimates regarding the residual value, useful life and amortization methods are reviewed at the end of each fiscal year, taking into account the nature of the assets, intended use and technology developments. Each component of an item of fixed assets with a cost that is significant in relation to the total cost of the item is depreciated separately.

The amortization expense for each period is recognized in earnings except for certain items of fixed assets related to exploration activities where the amortization expense is included in the carrying amount of an exploration asset when it relates to a specific exploration project. Depreciation of an asset ceases when it is classified as held for sale or when it is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

The carrying amount of an item of fixed assets is derecognized on disposal or when no future economic benefits are expected from its use or disposal.

The gain or loss arising from the disposal of an item of fixed assets is the difference between the proceeds of the disposal and the carrying value of the asset and is included in net earnings and presented separately in "Other income" or "Other expenses."

4.10 Provision for sites restoration

A provision for environmental restoration is recognized when: i) the Company has a present legal or constructive obligation as a result of past events; ii) it is more likely than not that an outflow of resources will be required to settle the obligation; and iii) the amount can be reliably estimated.

The Company recognizes the fair value of a future obligation associated with the provision for future site restoration as a liability in the period in which it is incurred and when a reasonable estimate of the fair value can be made. The fair value is capitalized and amortized over the same period as the underlying asset. The Company estimates the liability based on the estimated cost to abandon and reclaim a site in relation to its net ownership interest in the wells and facilities, including the estimated schedule of costs that will be incurred to this end in future periods. This estimate is periodically reviewed and changes are recorded prospectively as an increase or decrease in liability. Changes in the net present value of the future liability associated with site restoration are accreted pro rata to the time elapsed and recognized in earnings of the current period. Actual site restoration costs are charged to the accumulated provision as incurred.

4.11 Government subsidies and partner contributions

Resources-related tax credits, subsidies for exploration costs and partner contributions are recorded as a reduction in exploration expenses. Subsidies applied to operations are recorded as revenues in the statement of comprehensive income.

In the event of any variances between the government subsidies claimed by the Company and the amounts granted by the tax authorities, the resulting gain or loss will be recorded in the fiscal year in which these variances are noted.

4.12 Impairment of non-financial assets

For the purposes of measuring impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Consequently, some assets are tested individually and others are tested at the cash-generating unit level. Assessment of the impairment of exploration and evaluation assets is carried out property by property, each one representing a potential cash-generating unit. All individual assets or cash-generating units are reviewed for impairment whenever events or changes in circumstance indicate that their carrying amount may not be recoverable. In addition, if the technical feasibility and the commercial viability of the extraction of a petroleum resource can be demonstrated, exploration and evaluation assets related to the corresponding oil and gas property must undergo an impairment test before being transferred to fixed assets.

An impairment loss is recognized for the amount by which the carrying amount of an asset or a cash-generating unit exeeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less cost to sell and its value in use. To determine the value in use, Management estimates expected future cash flows from each asset or cash-generating unit, and then determines an appropriate interest rate for the calculation of the expected present value of the cash flows.

An impairment loss is recognized immediately in the statement of comprehensive income and is used to reduce the individual asset, or is charged pro-rata to each asset in the cash-generating unit. All assets are subsequently reassessed for indications that a previously recognized impairment loss may no longer exist. An impairment loss is reversed if the recoverable amount of an asset or cash-generating unit exceeds its carrying amount but must not exceed the carrying amount that would have been determined, after impairment, if no loss of value had been recorded.

4.13 Operating leases

Leases in which the lessor retains a significant portion of risks and benefits are treated as operating leases. Payments made under operating leases are recognized as an expense on a straight-line basis for the entire duration of the lease. Related costs, such as those relating to maintenance and insurance, are recognized as expenses as they are incurred.

4.14 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (“the functional currency”). The Company’s financial statements are presented in Canadian dollars, which is the Company’s functional and presentation currency.

4.15 Employee benefits

Short-term employee benefits (those that are payable within 12 months after services rendered, such as paid vacation and sick leave, bonuses and certain non-monetary benefits such as medical care) are recognized as an expense in the period when employees render their service and are not discounted.

4.16 Income taxes

Tax expense is recognized in earnings using the deferred tax asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on the difference between the carrying amount and their tax bases. Any change in the net amount of deferred assets and liabilities is recorded in earnings. Deferred tax assets and liabilities are measured using substantively enacted and enacted tax rates and tax laws expected to apply in the years in which the differences are expected to be recovered or settled. Deferred income tax assets are recognized when it is likely that they will be realized and are not discounted.

The tax expense includes current and deferred tax. This expense is recognized in net earnings, except for income tax related to items included in other comprehensive income or in equity, in which case it is recognized in other comprehensive income or equity, respectively.

Under tax legislation for flow-through investments, the Company is required to renounce tax deductions for expenses related to exploration and evaluation activities to the benefit of the investors. When the Company renounces income tax deductions and incurs eligible expenses, the forfeited tax deductions is recognized in earnings as an increase of deferred tax and a deferred tax liability is recognized for the temporary difference between the carrying amount of the eligible expenses capitalized as assets and its tax base.

Current income tax assets or liabilities are obligations or claims for current or prior periods to be recovered from (or paid to) taxation authorities that are still outstanding at the end of the reporting period. Current tax is computed on the basis of tax profit, which differs from net earnings. This calculation is made using tax rates and laws enacted at the end of the reporting period.

4.17 Equity

Share capital

Share capital is presented at the value at which the shares were issued. Costs attributable to the issuance of shares, warrants or shares options are recognized in equity, net of taxes, as a deduction from the proceeds in the year of transaction.

Contributed surplus

Contributed surplus includes expenses associated with share options and broker warrants until the options are exercised.

Flow-through shares

The Company finances the cost of some exploration and evaluation assets through the issuance of flow-through shares, which is accounted for similarly to the issuance of a compound financial instrument. The liability component represents the obligation to revert the tax benefits to the investors. Proceeds from the issuance of shares by flow-through private placements are allocated between the shares issued and the liability using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and any residual amount is allocated to the liability and reversed in earnings as a recovered deferred tax credit as the qualifying expenditures are incurred.

Warrants

No value is assigned to warrants issued other than those issued to brokers.

Retained earnings

Retained earnings include all current and prior period undistributed profits and losses.

4.18 Share-based payments

The Company has an equity-settled, share-based compensation plan for eligible directors, employees and consultants. The plan does not include a cash-settlement option. The Company occasionally issues warrants to brokers.

All goods and services received in exchange for share-based payment awards are measured at fair value. When employees are rewarded using share-based payments, the fair value of the services rendered is determined indirectly by reference to the fair value of the equity instruments granted. The same method is used for transactions with consultants, who receive share-based payments and for whom the fair value of services received cannot be reliably determined. This fair value is appraised at the grant date.

Share-based payments (except warrants to brokers) are ultimately expensed in earnings or capitalized as exploration and evaluation assets, depending on the nature of the payment, with a corresponding credit to contributed surplus, in equity. Share-based payments to brokers, in the case of equity financing, are recognized as issuance cost of the equity instruments, with a corresponding credit to contributed surplus, in equity.

Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of a share option or broker warrant, the proceeds received net of any directly attributable transaction costs are recorded as share capital. The accumulated charges related to the share options and broker warrants recorded in contributed surplus are transferred to share capital.

4.19 Segmental reporting

As required by IFRS 8 *Operating Segments*, the Company presents and discloses segmental information based on information that is regularly reviewed by the chief operating officer and the Board of Directors with a view to assessing the Company's performance.

The Company has determined that it has only one operating segment, the exploration and evaluation segment.

NOTES TO FINANCIAL STATEMENTS

For the years ended September 30, 2012 and September 30, 2011

5. Estimates, judgments and assumptions

When preparing the financial statements, Management makes a number of judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the reported revenues and expenses during the reporting period. Actual results may differ from these estimates and will seldom equal actual results. Information about the significant judgments, estimates and assumptions that have the most impact on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

Exploration and evaluation assets

Determining whether there is an indication of impairment and reversal of impairment and determining the recoverable amounts in the event that an impairment test is required entails a judgment. If there is an indication of impairment or reversal of impairment of an asset or a cash-generating unit, an estimate of the recoverable value is performed and the impairment or reversal of impairment is recognized to the extent that the carrying value of the asset exceeds its recoverable amount. The recoverable amount of an asset is determined as being the higher of its fair value less costs to sell and its value in use.

Management determines for each property if there are any facts or circumstances indicating impairment or a reversal of impairment. The facts and circumstances considered include but are not limited to the following:

(a) The period during which the entity has the right to explore a specific area has expired or will expire in the near future, and is not expected to be renewed;

(b) Substantive expenditures on further exploration and evaluation of petroleum resources in a specific area are neither budgeted nor planned;

(c) Exploration for and evaluation of petroleum resources in a specific area have not led to the discovery of commercially viable quantities of petroleum resources and the Company has decided to discontinue such activities in the specific area;

(d) Sufficient data exist to indicate that, although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in its entirety from successful development or by sale.

When it has been determined that an indicator of impairment or reversal of impairment exists, Management must measure the recoverable value of the asset or cash-generating unit by making assumptions relating to future events or circumstances. Assumptions are based on the Company's exploration and evaluation plan, which considers whether the results of exploration activities justify additional investments, whether the Company's interest in the oil and gas rights have been confirmed, whether the Company is capable of securing the necessary funding to complete the development and future profitable production, and whether the disposal of the properties will be carried out at an amount greater than the carrying amount.

Actual results may differ and give rise to significant adjustments to the Company's assets in the next year.

Management has determined that there is no indication of impairment or a reversal of impairment except for the Dalhousie property where a licence resulted in a write-down of $300,612 plus expenses of $193,874, for a total loss of $494,486, recorded in comprehensive income.

Deferred taxes

The assessment of availability of future taxable profits involves judgment. A deferred tax asset is recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized.

By "likely" the Company means that the chances of the future event or events occurring are high.

The Company considers it likely that such taxable profits will be available.

Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgment and estimates. Further information regarding going concern is outlined in Note 1.

Share-based payments

The Company recognizes all of its share-based payments using the fair value method. The company uses the Black-Scholes valuation model to determine the fair value of share options and warrants issued to brokers. The main factor that affects fair value estimates of share options and these warrants is the expected volatility rate of the stock price. The Company currently estimates the expected volatility of its ordinary shares based on the historical volatility by taking the expected life of the options and broker warrants into account.

Technical feasibility and commercial viability of exploration and evaluation assets

The decision concerning the technical feasibility and commercial viability of exploration and evaluation assets involves a number of assumptions, such as estimated reserves, resource price forecasts, expected production volumes and discount rates, which could all change significantly in the future. The Company has determined that no properties have passed the stage of technical feasibility and commercial viability.

6. Cash and cash equivalents

Cash and cash equivalents include the following items:

As at September 30	2012	2011	As at October 1 2010
	$	$	$
Cash (bank overdraft)	(1,872,572)	695,699	448,055
Guaranteed investment certificates	4,254,331	7,454,331	1,500,000
Money market fund	7,860,503	1,004	1,000
Cash and cash equivalents	10,242,262	8,151,034	1,949,055

As at September 30, 2012, cash and cash equivalents included guaranteed investment certificates with interest between 1.75% and 2.4% (1.75% and 2.4% at September 30, 2011 and 1.6% at October 1, 2010), expiring between December 22, 2012 and May 8, 2013. These instruments are cashable at any time without penalty.

NOTES TO FINANCIAL STATEMENTS

For the years ended September 30, 2012 and September 30, 2011

7. Receivables

As at September 30	2012	2011	As at October 1 2010
	$	$	$
Partner	510,256	981,613	–
Input tax credits	1,056,880	41,847	24,210
Tax credits receivable	3,408,957	3,318,935	2,816,842
Interest receivable	94,949	114,763	2,512
Other	15,260	160,213	77,336
	5,086,302	4,617,371	2,920,900

On September 30, 2012, the Company recorded a resources tax credit of $2,905,840 (2011- $502,092).

Tax credits receivable relate to applications that have yet to be studied by the tax authorities.

All amounts show short-term maturities. Their net carrying value corresponds to a reasonable approximation of their fair value.

8. Investments

As at September 30	2012	2011	As at October 1 2010
	$	$	$
Guaranteed investment certificate, 1.68%, cashable July 2011 and expiring July 2012	–	–	530,000
Guaranteed investment certificate, 1.60%, cashable any time, expiring September 2012	–	–	224,331
Guaranteed investment certificate, 2.40%, cashable any time, expiring December 2012 (Note 23)	1,080,000	480,000	–
Guaranteed investment certificate, 1.752%, cashable any time, expiring May 2013	–	450,000	–
	1,080,000	930,000	754,331
Current portion of investments	1,080,000	930,000	754,331
	–	–	–

9. Fixed assets

	Leasehold improvements	IT, office and field equipment	Rolling stock	Reservoirs	Field offices	Land	Total
	$	$	$	$	$	$	$
Gross carrying amount							
Balance as at October 1, 2011	565,179	266,809	236,187	115,739	–	75,434	1,259,348
Additions	12,305	27,635	8,300	132,670	186,107	–	367,017
Disposals	–	–	–	–	–	–	–
Balance as at September 30, 2012	577,484	294,444	244,487	248,409	186,107	75,434	1,626,365
Accumulated depreciation							
Balance as at October 1, 2011	65,807	96,046	157,594	8,122	–	–	327,569
Disposals	–	–	–	–	–	–	–
Depreciation	159,140	43,771	25,238	29,367	9,305	–	266,821
Balance as at September 30, 2012	224,947	139,817	182,832	37,489	9,305	–	594,390
Carrying amount as at September 30, 2012	352,537	154,627	61,655	210,920	176,802	75,434	1,031,975

	Leasehold improvements	IT, office and field equipment	Rolling stock	Reservoirs	Field offices	Land	Total
	$	$	$	$	$	$	$
Gross carrying amount							
Balance as at October 1, 2010	18,387	160,040	236,187	–	–	–	414,614
Additions	546,792	106,769	–	115,739	–	75,434	844,734
Disposals	–	–	–	–	–	–	–
Balance as at September 30, 2011	565,179	266,809	236,187	115,739	–	75,434	1,259,348
Accumulated depreciation							
Balance as at October 1, 2010	16,831	60,713	123,911	–	–	–	201,455
Disposals	–	–	–	–	–	–	–
Depreciation	48,976	35,333	33,683	8,122	–	–	126,114
Balance as at September 30, 2011	65,807	96,046	157,594	8,122	–	–	327,569
Carrying amount as at September 30, 2011	499,372	170,763	78,593	107,617	–	75,434	931,779
Carrying amount as at October 1, 2010	1,556	99,327	112,276	–	–	–	213,159

NOTES TO FINANCIAL STATEMENTS

For the years ended September 30, 2012 and September 30, 2011

10. Exploration and evaluation assets

Oil and gas properties

	2011 September 30 $	Write-offs $	Additions $	2012 September 30 $
Quebec				
Anticosti[1]	296,297	–	44,578	340,875
Gastonguay	664,398	–	25,902	690,300
Gaspésia – Edgar – Marcel-Tremblay	404,933	–	22,017	426,950
Gaspé[1]	1,635,540	–	1,654,917	3,290,457
New Brunswick				
Dalhousie	146,837	(7,311)	–	139,526
Total oil and gas properties	3,148,005	(7,311)	1,747,414	4,888,108

Exploration expenses

	2011 September 30 $	Write-offs $	Additions $	2012 September 30 $
Quebec				
Anticosti	6,341,925	–	1,125,072	7,466,997
Gastonguay	74,638	–	399	75,037
Gaspésia – Edgar – Marcel-Tremblay	3,730,267	–	39,967	3,770,234
Gaspé	2,450,597	–	211,896	2,662,493
Bourque project	3,668,983	–	7,499,559	11,168,542
Haldimand project	11,198,581	–	2,145,014	13,343,595
Tar Point 1 project	4,955,679	–	328,544	5,284,223
New Brunswick				
Dalhousie	1,143,494	(293,301)	11,523	861,716
	33,564,164	(293,301)	11,361,974	44,632,837
Less				
Exploration subsidies and partner contributions:				
Anticosti	2,280,008	–	732,394	3,012,402
Gastonguay	18,796	–	113	18,909
Gaspésia – Edgar – Marcel-Tremblay	411,354	–	11,737	423,091
Gaspé	550,176	–	94,757	644,933
Bourque project	3,060,535	–	2,623,741	5,684,276
Haldimand project	3,667,265	–	2,032,223	5,699,488
Tar Point 1 project	796,565	–	293,050	1,089,615
Dalhousie	6,922	–	–	6,922
	10,791,621	–	5,788,015	16,579,636
Income from evaluation of oil reserves				
Gaspé				
Haldimand project	216,759	–	29,453	246,212
Total exploration expenses	22,555,784	(293,301)	5,544,506	27,806,989

Summary as at September 30, 2012

	2011 September 30 $	Write-offs $	Additions $	2012 September 30 $
Properties	3,148,005	(7,311)	1,747,414	4,888,108
Exploration expenses	22,555,784	(293,301)	5,544,506	27,806,989
Exploration and evaluation assets	25,703,789	(300,612)	7,291,920	32,695,097

Oil and gas properties

2010	October 1 $	2011 Disposals $	Additions $	September 30 $
Quebec				
Anticosti[1]	259,970	–	36,327	296,297
Gastonguay	638,497	–	25,901	664,398
Gaspésia – Edgar – Marcel-Tremblay	382,915	–	22,018	404,933
Gaspé[1]	2,427,941	(806,060)	13,659	1,635,540
New Brunswick				
Dalhousie	143,306	–	3,531	146,837
Total oil and gas properties	3,852,629	(806,060)	101,436	3,148,005

Exploration expenses

	2010 October 1 $	Write-offs $	Additions $	2011 September 30 $
Quebec				
Anticosti	5,305,277	–	1,036,648	6,341,925
Gastonguay	73,473	–	1,165	74,638
Gaspésia – Edgar – Marcel-Tremblay	3,531,433	–	198,834	3,730,267
Gaspé	2,264,806	–	185,791	2,450,597
Bourque project	3,580,147	–	88,836	3,668,983
Haldimand project	9,383,853	–	1,814,728	11,198,581
Tar Point 1 project	4,699,028	–	256,651	4,955,679
New Brunswick				
Dalhousie	1,111,708	–	31,786	1,143,494
	29,949,725	–	3,614,439	33,564,164
Less				
Exploration subsidies and partner contributions				
Anticosti	1,930,632	–	349,376	2,280,008
Gastonguay	18,415	–	381	18,796
Gaspésia – Edgar – Marcel-Tremblay	341,818	–	69,536	411,354
Gaspé	483,228	–	66,948	550,176
Bourque project	3,027,548	–	32,987	3,060,535
Haldimand project	2,170,519	–	1,496,746	3,667,265
Tar Point 1 project	626,494	–	170,071	796,565
Dalhousie	6,922	–	–	6,922
	8,605,576	–	2,186,045	10,791,621
Income from evaluation of oil reserves				
Gaspé				
Haldimand project	109,738	–	107,021	216,759
Total exploration expenses	21,234,411	–	1,321,373	22,555,784

NOTES TO FINANCIAL STATEMENTS

For the years ended September 30, 2012 and September 30, 2011

Summary as at September 30, 2011

	2010 October 1 $	Disposal $	Additions $	2011 September 30 $
Properties	3,852,629	(806,060)	101,436	3,148,005
Exploration expenses	21,234,411	–	1,321,373	22,555,784
Exploration and evaluation assets	25,087,040	(806,060)	1,422,809	25,703,789

(1) Properties with the reference (1) are subject to royalties if they go into production. To date, the Company has satisfied all of its obligations and lists only future or potential obligations and particular transactions of the reporting period below.

Gaspé properties

In May 2008, Pétrolia acquired a 100% interest in a 6,043 km² surface area of these properties (excluding the Haldimand property), subject to a royalty payment varying from 0.5% to 2.5% on the future production of hydrocarbons. In June 2010, the Company carried out an asset exchange increasing its interest to 100% in all Gaspé leases, a 150 km² territory, with the exception of a 9 km² zone in which its interest is at 64% (Haldimand property). On December 20, 2010, the Company proceeded to sign definitive agreements for the sale of 50% of interests in the Haldimand discovery as well as in 13 leases surrounding this discovery to Québénergie Inc. (subsidiary of Investcan) for the sum of $15,190,000. A sum of $6,690,000 was paid in cash and $8,500,000 in exploration work was to be carried out by Québénergie inc. over the next two years.

Haldimand property

On May 6, 2008, a second agreement delineated a development area of 9 km² around the Pétrolia Haldimand 1 well over which Pétrolia holds a 45% interest, Junex holding 45% and Gastem 10%. Certain licences of these properties are subject to royalty payments of 5%. Under an amendment to the original agreement signed July 22, 2009, Pétrolia has become the operator of all the development area of 9 km². On October 1, 2009, Pétrolia proceeded to acquire all of Gastem's interests. Following its decision to not participate in the drilling of a second well, Junex saw its participation lower by 9%. After signing definitive agreements for the sale of 50% of interests in the discovery of Haldimand, Pétrolia's interest in Haldimand was thus 32%, Québénergie's 32% and Junex held 36% of the remaining interest.

On December 20, 2011, Pétrolia and Québénergie spent $3.1 million to acquire the 36% interest held by Junex in this deposit. The agreement absolved Junex from late filing penalties to which it was exposed, due to its non-participation in the last work performed. Following this transaction, Pétrolia and Québénergie equally share all interest in the deposit and surrounding properties.

Bourque property

In May 2012, the Company completed a private placement of $15.75 million. Most of the proceeds will be used to drill two wells on the property.

Anticosti property

The Company has acquired all of the rights belonging to Hydro-Québec on Anticosti Island. In return, a priority fee on future oil production will be paid to Hydro-Québec. Under this agreement, Pétrolia shares with Corridor Resources Inc. an interest varying between 25% in six leases and 50% in 29 exploration leases on the island and acts as an operator over most of these leases. In June 2010, the Company participated in the drilling of three exploration wells and extracted a core sample in order to evaluate the potential of the Macasty Formation as a shale gas reservoir. In light of the results of the core sample analysis, the Company plans to carry out development work in order to better estimate the oil potential of Anticosti Island.

11. Trade and other payables

As at September 30	2012	2011	As at October 1 2010
	$	$	$
Payables and accrued liabilities	2,449,192	1,292,591	655,203
Salaries, vacation pay and directors' fees	270,614	176,927	167,136
Security deposit	307,500	–	–
	3,027,306	1,469,518	822,339

12. Loan

As at September 30	2012	2011	As at October 1 2010
	$	$	$
Bank loan, in the authorized amount of $2,500,000, bearing interest at Caisse Centrale Desjardins prime rate plus 1%. The bank loan was secured by a $2,500,000 mortgage on the universality of the Company's current and future claims and receivables, with a first charge on refundable tax credits and future tax credits, as well as an 80% surety from Investissement Québec. The capital repayment was carried out during the first quarter of 2012.	–	2,243,310	2,243,310

13. Provision for sites restoration

Management measures the total provisions for future sites restoration according to the Company's net share of the estimated costs of abandonment and reclamation of its wells and facilities and to the estimated timeframe of costs to incur over the course of future periods.

On September 30, 2012, the future estimated total required to settle obligations related to sites restoration, indexed at 3.5%, stood at $385,938 (September 30, 2011 – $369,178, October 1, 2010 – $0). Of this amount, $98,000 (September 2011 – $135,500, October 1, 2010 – $0) will be settled during the next period. The total future amount was discounted using the weighted average rate of 5.25%, according to a varying payment schedule from 1 to 30 years. The total undiscounted amount of the estimated cash flow required to settle this obligation is $452,500 (September 30, 2011 – $436,000, October 1, 2010 – $0).

The following table presents the reconciliation of the provision for sites restoration.

As at September 30	2012	2011	As at October 1 2010
	$	$	$
Balance, beginning of period	369,178	–	–
Liabilities incurred	41,992	369,178	–
Accretion expense	12,268	–	–
Amount used	(37,500)	–	–
Balance, end of period	385,938	369,178	–
Portion of liability to be settled during the next year	98,000	135,500	–
	287,938	233,678	–

NOTES TO FINANCIAL STATEMENTS

For the years ended September 30, 2012 and September 30, 2011

14. Capital stock

Authorized

Unlimited number of ordinary, participating, voting, and no par value shares.

Issued

For the year ended September 30	2012		2011	
	Number of shares	Amount $	Number of shares	Amount $
Balance, beginning of period	54,579,477	35,432,271	50,067,287	30,416,651
Shares issued				
Debt retirement	–	–	75,000	33,750
Share issuance	11,091,552	15,750,004	–	
Exercise of warrants	264,721	344,136	3,878,440	4,505,472
Exercise of share options	650,000	460,208	558,750	487,748
Future taxes		160,421		(10,516)
Share issuance expense		(769,000)		(834)
Balance, end of period	66,585,750	51,378,040	54,579,477	35,432,271

Warrants

Outstanding warrants allow holders to subscribe to an equivalent number of ordinary shares as follows:

For the year ended September 30	2012		2011	
	Number of warrants	Weighted average exercise price $	Number of warrants	Weighted average exercise price $
Balance, beginning of period	264,721	1.30	10,246,493	1.23
Issued	5,788,734	1.76	–	–
Exercised	(264,721)	(1.30)	(3,878,440)	(1.15)
Expired	–	–	(6,103,332)	(1.27)
Balance, end of period	5,788,734	1.76	264,721	1.30

The number of outstanding warrants that can be exercised for an equivalent number of ordinary shares is as follows:

For the year ended September 30	2012		2011	
Expiry date	Number of warrants	Exercise Price $	Number of warrants	Exercise Price $
December 4, 2011	–	–	264,721	1.30
May 14, 2014	242,958	1.42		
May 15, 2015	5,545,776	1.78	–	–
	5,788,734	1.76	264,721	1.30

15. Leases

	Minimum lease payments due		
	Within 1 year	1 to 5 years	Total
	$	$	$
September 30, 2012	289,870	737,602	1,027,472
September 30, 2011	275,306	1,009,239	1,284,545
October 1, 2010	81,186	3,500	84,686

The Company leases its offices under leases expiring in 2012 and in 2016.

Lease payments recognized as an expense during the reporting period amount to $284,289 ($138,625 in 2011) of which $148,474 ($65,109 in 2011) were charged to exploration and evaluation assets. This amount consists of minimum lease payments. No sublease or contingent rent payment was made. An amount of $12,156 ($0 in 2011) was received as a sublease payment. The Company's operating lease agreements do not contain any contingent rent clauses or restrictions concerning dividends, additional debt and further leasing. The Company is entitled to renew its office lease for five years without an increase in base rent, and energy costs will be indexed annually according to the Consumer Price Index.

16. Employee remuneration and share-based payments

Employee benefit expense

Expenses recognized for employee benefits are presented below:

September 30	2012	2011
	$	$
Salaries	2,223,643	1,592,822
Share-based payments	639,692	500,208
	2,863,335	2,093,030
Less: salaries capitalized in exploration and evaluation assets	1,276,431	917,010
Employee benefit expense	1,586,904	1,176,020

NOTES TO FINANCIAL STATEMENTS

For the years ended September 30, 2012 and September 30, 2011

Share-based payments

The Company has a share-based payment plan under which it may grant options of up to 10% of the Company's issued and outstanding shares, from time to time, to its directors, officers, key employees and suppliers. The exercise price of each option will be the market price or discounted market price on the day prior to the grant. Share options have a maximum term of five years and vest immediately for directors and over a period of three years for other participants.

All share-based payments will be settled in equity. The Company has no legal or constructive obligation to repurchase or settle the options.

The Company's share options are as follows for the reporting periods presented:

For the year ended September 30	2012		2011	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding, beginning of year	3,276,250	0.84	2,965,000	0.64
Granted	1,341,000	1.52	1,495,000	0.94
Exercised	(650,000)	0.43	(558,750)	0.53
Expired	(261,250)	0.82	(625,000)	0.40
Outstanding, end of year	3,706,000	1.16	3,276,250	0.84
Exercisable	2,221,500	1.09	2,198,750	0.80

The weighted average price of the share at the date of exercise was $1.43 on September 30, 2012 ($1.49 on September 30, 2011).

The following options are outstanding at September 30, 2012:

Options outstanding

Number of options	Exercise price $	Remaining life (years)	Expiry date
400,000	0.60	0.3	February 12, 2013
327,500	1.25	0.8	July 7, 2013
120,000	0.74	1.7	May 21, 2014
270,000	0.89	2.4	February 25, 2015
672,500	0.50	3.2	December 8, 2015
75,000	1.31	3.4	February 25, 2016
500,000	1.69	3.6	May 18, 2016
1,266,000	1.52	4.2	December 4, 2016
75,000	1.51	4.3	February 22, 2017

The following options are outstanding as at September 30, 2011:

Options outstanding

Number of options	Exercise price $	Remaining life (years)	Expiry date
21,250	0.74	0.7	May 21, 2012
547,500	0.40	0.8	June 21, 2012
400,000	0.60	1.3	February 12, 2013
125,000	0.60	1.4	March 3, 2013
427,500	1.25	1.8	July 7, 2013
120,000	0.74	2.7	May 21, 2014
270,000	0.89	3.4	February 25, 2015
790,000	0.50	4.2	December 8, 2015
75,000	1.31	4.4	February 25, 2016
500,000	1.69	4.6	May 18, 2016

The weighted fair value of share options and broker warrants granted during the period ended September 30, 2012 was $0.71 per option ($0.59 in 2011).

The fair value of share options granted was determined using the Black-Scholes option pricing model and based on the following assumptions:

	2012 May	2012 February	2011 December	2011 May	2011 February	2010 December
Exercise price	$1.42	$1.51	$1.52	$1.69	1.31	0.50
Share price at date of grant	$1.42	$1.51	$1.52	$1.69	1.34	0.47
Risk-free interest rate	0.86%	3%	3%	3%	3%	3%
Average expected volatility	95%	91%	91%	94%	94%	94%
Expected average life (years)	2	5	5	5	5	5
Expected dividend yield	Nil	Nil	Nil	Nil	Nil	Nil

NOTES TO FINANCIAL STATEMENTS

For the years ended September 30, 2012 and September 30, 2011

The underlying expected volatility was determined by reference to historical data of the Company's shares over the last five years, beginning on the date of grant.

The possibility of an exercise price before maturity was taken into account in the pricing model, i.e. that employees will exercise their options nine months after the award.

Accordingly, share-based remuneration was allocated as follows:

As at September 30	2012	2011
	$	$
Statement of comprehensive income	506,709	458,883
Exploration expense	132,983	41,325
Frais d'émission	173,472	–
Total	813,164	500,208

The broker warrants were valued using the Black-Scholes option pricing model since it is impossible to reliably establish the fair value of the services rendered given that the negotiations were not based on work to be performed.

17. Financial income

Financial income may be analyzed as follows for the reporting periods presented:

As at September 30	2012	2011
	$	$
Interest income from cash and cash equivalents and investments	236,680	133,587

18. Earnings per share

The calculation of basic earnings per share is based on the profit or loss for the year divided by the weighted average number of ordinary shares outstanding during the period. In calculating diluted earnings per share for the reporting period, potential ordinary shares, such as certain options and warrants, were not included as they would have the effect of decreasing the loss per share, which would be antidilutive.

Both basic and diluted earnings per share were calculated using the earnings as the numerator, i.e. no adjustment to earnings was necessary.

As at September 30	2012	2011
Net earnings	$(3,019,033)	$2,170,910
Basic weighted average number of shares	59,678,089	51,249,243
Dilutive effect of warrants and options	–	1,380,147
Weighted average number of diluted shares	59,678,089	52,629,390
Basic net earnings per share	$(0.051)	$0.042
Diluted net earnings per share	$(0.051)	$0.041

19. Related party transactions

The Company's related parties include other related parties and key management personnel, as described below.

Unless otherwise indicated, none of the transactions involve special terms or conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

Transactions with key management personnels

The remuneration of key management includes:

For the year ended September 30	2012	2011
	$	$
Short-term employee benefits		
Salaries and benefits	685,882	413,589
Directors' fees	126,817	109,133
Total short-term benefits	812,699	522,722
Rémunération fondée sur des actions	473,206	451,327
Total remuneration	1,285,905	974,049

During the reporting period, key management exercised 547,500 options (312,500 - 2011) granted under the share-based compensation plan.

NOTES TO FINANCIAL STATEMENTS

For the years ended September 30, 2012 and September 30, 2011

Related companies

Transactions were carried out with two companies whose main officer (holding a minority interest) also serves on Pétrolia's board:

For the year ended September 30	2012	2011
	$	$
Statement of financial position		
Exploration and evaluation assets	5,300	–
Statement of comprehensive income		
Other expenses	9,110	9,426

The balance due from these companies is $0 at September 30, 2012 (September 30, 2011 – $37,500; October 1, 2010 – $35,915).

The Company entered into the following transactions with a director acting as a consultant for the Company:

For the year ended September 30	2012	2011
	$	$
Statement of financial position		
Exploration and evaluation assets	2,063	3,469

The balance owing this director is $0 at September 30, 2012 (September 30, 2011 – $0; October 1, 2010 – $0).

The Company entered into the following transactions with a company in which a director is a minority shareholder:

For the year ended September 30	2012	2011
	$	$
Statement of financial position		
Exploration and evaluation assets	9,500	–

The balance owing this company is $0 at September 30, 2012.

The Company entered into the following transactions with a company whose director also sits on Pétrolia's board:

For the year ended September 30	2012	2011
	$	$
Statement of comprehensive income:		
Salaries and benefits	–	20,438
Office supplies and transportation	–	1,208

Accounts receivable from this company is $2,516 at September 30, 2011 (October 1, 2010 – balance due: $161).

The Company entered into the following transactions with a close relative of a member of Management, who provided services to the Company:

For the year ended September 30	2012	2011
	$	$
Statement of financial position		
Property, plant and equipment	10,685	49,021
Statement of comprehensive income		
Office maintenance	11,605	–

The balance owing to this supplier is $0 at September 30, 2012 (September 30, 2011 – $0; October 1, 2010 – $0).

These transactions took place in the normal course of business and were measured at their exchange value, which is the consideration established and accepted by related parties.

20. Capital management

The Company's capital management objectives are to ensure the Company's continued ability to pursue its exploration activities. Capital consists of equity. Management regularly reviews its capital management policy on a going concern basis and believes that this is a reasonable approach considering the Company's size.

The Company's financial strategy is developed and adapted according to market conditions in order to maintain a flexible capital structure in compliance with the aforementioned objectives and to respond to the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company, as a junior exploration company, issues new shares.

There were no material changes to the Company's capital management policies and procedures during the period ended September 30, 2012. The Company is not subject to any externally imposed capital requirements, regulations or contractual requirements, unless the Company closes a flow-through investment, in which case the funds are restricted to exploration activities.

NOTES TO FINANCIAL STATEMENTS

For the years ended September 30, 2012 and September 30, 2011

21. Risks arising from financial instruments

Risk management policy

Through its financial assets and liabilities, the Company is exposed to various risks. The following analysis provides a measurement of the risks as at September 30, 2012, the statement of financial position date:

Credit risk

Financial instruments that potentially subject the Company to credit risk consist primarily of cash and cash equivalents and receivables. The Company's cash and cash equivalents are held with or are issued by first-class financial institutions. The majority of receivables are sums owed by governments, partners and related parties. Therefore, Management considers the risk of non-performance on these instruments to be very minimal.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due or do so only at excessive cost. The Company finances its growth by issuing shares and selling interests in some of its oil assets. One of Management's main financial objectives is to maintain an optimal level of liquidities by actively managing its exploration activities. All of the Company's financial liabilities have a maturity of less than one year.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market conditions. Market risk comprises three types of risk: interest rate risk, currency risk, and other price risks. The Company is exposed to interest rate risk.

Interest rate risk

Interest rate risk refers to the impact of interest rate fluctuations on the value of investments.

The Company is exposed to interest rate risk on its fixed-rate financial instruments. For the year ended September 30, 2012, an increase or decrease of 1% in the interest rates in effect at that date, with all other variables remaining equal, would have generated a profit or loss of $86,006 (2011 - $39,480).

Fair value

The fair value of investments is determined as follows:

Guaranteed investment certificates: Given their recent issuance, the fair value corresponds to their cost.

Money market fund: Given its short-term maturity, the fair value corresponds to its cost.

As regards the loan, the carrying value approximates the fair value due to a variable interest rate on the debt.

Fair value hierarchy

Financial instruments recognized at fair value on the statement of financial position are classified using a hierarchy that reflects the significance of the inputs used in making the fair value measurements.

The three levels of the fair value hierarchy are:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities: cash is found at this level.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices): cash equivalents and investments are found at this level.

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

There was no transfer in the valuation of financial assets between levels 1 and 2 during the period.

22. Commitments

Under the terms of exploration licences granted by the Ministère des Ressources naturelles du Québec and New Brunswick's Ministry of Natural Resources, the Company has committed to pay fees in the amount of $484,552 by 2016. The minimum payments due during the upcoming years are as follows:

2013	2014	2015	2016
$	$	$	$
121,138	121,138	121,138	121,138

In addition, the Company must perform work on its properties in Quebec on a yearly basis, for which the minimum costs vary with the age of the licences; the cost is $0.50 per hectare for the first year of the licence and increases annually by $0.50, ultimately reaching $2.50 per hectare as of the fifth year. Based on the work performed at September 30, 2012, and excluding work that will be performed by 2017 (licence renewal date), the minimum work requirements are $248,698 in 2015, $935,753 in 2016 and $2,000,041 in 2017.

The adoption of Bill 18 in Quebec suspends some of these statutory work obligations for up to three years while at the same time extending the validity of all the licences for the same period. Pétrolia may, however, still continue its activities despite the suspended obligation.

The Company has signed leases with three companies for the rental of offices and a house until 2016. The balance of the commitments under these leases, excluding escalation clauses, is $1,027,472.

The minimum payments required in the coming years are as follows:

2013	2014	2015	2016
$	$	$	$
289,870	276,600	276,600	184,402

The Company has undertaken to support the renewal of the NSERC-Anticosti Forest Products Industrial Research Chair by contributing $200,000 over a five-year period. A portion of these costs could potentially be assumed by a partner.

The minimum payments due over the next four years are as follows:

2013	2014	2015	2016
$	$	$	$
40,000	40,000	40,000	40,000

23. Contingencies

Financing

The Company is financed in part by the issue of flow-through shares and it has met all of its commitments related to exploration work to carry out. However, although it has taken all the necessary measures in this regard, there is no guarantee that the funds spent by the Company regarding these shares will be deemed eligible by tax authorities in the event of an audit. Refusal of certain expenses by tax authorities would have negative tax consequences for investors.

Environment and letters of guarantee

The Company's operations are regulated by environmental protection laws. Environmental consequences are difficult to identify, whether in terms of level, timeline or impact. Currently, to the best of Management's knowledge, the Company is operating in accordance with the laws and regulations in force. Letters of guarantee in the amount of $1,080,000 to guarantee site closure work were issued in favour of the Ministère des Ressources naturelles.

These letters of guarantee are guaranteed by GICs for an equivalent amount (Note 8).

NOTES TO FINANCIAL STATEMENTS

For the years ended September 30, 2012 and September 30, 2011

24. Additional cash flow information

Items not affecting cash and cash equivalents

As at September 30	2012	2011
	$	$
Receivables related to exploration and evaluation assets	533,701	(1,578,519)
Deferred tax related to share issuance costs	160,421	224
Payables related to exploration and evaluation assets	930,645	229,956
Payables related to fixed assets	(13,421)	8,031
Accrued liabilities related to the write-off of properties	(193,874)	–
Share-based payments related to exploration and evaluation assets	132,983	41,325
Shares issued for debt	–	33,750
Other information		
Interest paid	15,505	84,470
Interest received	256,494	19,232

25. Deferred tax

Significant components of tax expense

The significant components of the tax expense charged to net earnings, comprehensive income and share capital are detailed as follows:

As at September 30	2012	2011
	$	$
Current tax	–	–
Deferred tax		
Origination and reversal of temporary differences	(854,125)	905,031
Total deferred tax recognized in net earnings	(854,125)	905,031

Relationship between income tax expense and tax expense in net earnings

The relationship between the expected income tax expense calculated on the basis of the combined federal and provincial rate in Canada and the tax expense presented in profit or loss is reconciled as follows:

As at September 30	2012	2011
	$	$
Pre-tax net earnings	(3,873,158)	3,075,991
Income tax at combined statutory rate of 26.9%	(1,041,880)	827,442
Adjustments for the following items:		
Remeasurement of deferred tax assets and liabilities	140,761	75,057
Share-based payments	136,304	123,439
Other non-deductible expenses	7,450	13,356
Share issuance costs	(96,760)	(68,563)
Change in tax rate	–	(65,700)
Deferred tax expense recognized in net earnings	(854,125)	905,031

Changes in deferred taxes recognized

The change in deferred taxes, by type, is presented as follows:

	2011 September 30	Recognized in equity	Recognized in net earnings	2012 September 30
	$	$	$	$
Deferred losses	(1,229,491)	–	(810,402)	(2,039,893)
Share issuance costs	(116,233)	(160,421)	96,984	(179,670)
Measurement differences on assets and liabilities	(29,263)	–	(95,614)	(124,877)
Total deferred tax assets	(1,374,987)	(160,421)	(809,032)	(2,344,440)
Measurement differences on assets	3,614,117	–	(45,093)	3,569,024
Total net of deferred tax liabilities	2,239,130	(160,421)	(854,125)	1,224,584

	2010 October 1	Recognized in equity	Recognized in profit (loss)	2011 September 30
	$	$	$	$
Loss carry forward	(1,396,141)	–	166,650	(1,229,491)
Share issuance costs	(194,865)	10,516	68,116	(116,233)
Measurement differences on assets and liabilities	(37,883)	–	8,620	(29,263)
Total deferred tax assets	(1,628,889)	10,516	243,386	(1,374,987)
Measurement differences on assets	2,952,472	–	661,645	3,614,117
Total net of deferred tax liabilities	1,323,583	10,516	905,031	2,239,130

Tax losses

As at September 30, 2012, the tax losses available to reduce deferred taxes for which tax benefits have been recognized amount to approximately $7,886,349 and $7,201,182 at the federal and provincial levels respectively. The expiration dates of loss carry forwards are as follows:

The Company believes it will be able to use the tax losses with resulting tax benefits when the Gaspé property will put into production (Haldimand project).

	Federal	Provincial
	$	$
2015	14,675	–
2026	574,450	389,776
2027	648,473	514,153
2028	660,423	524,691
2029	1,367,495	1,235,683
2030	1,600,512	1,532,292
2032	3,020,321	3,004,587

Components of deferred taxes recognized on the statements of financial position

Deferred tax assets and liabilities stem from differences between the tax value and the carrying amount of the following items:

September 30	2012	2011	As at October 1 2010
	$	$	$
Deferred tax assets:			
Loss carry forward	(2,039,893)	(1,229,491)	(1,396,141)
Share issuance costs	(179,670)	(116,233)	(194,865)
Other	(124,877)	(29,263)	(37,883)
	(2,344,440)	(1,374,987)	(1,628,889)
Deferred tax liabilities:			
Exploration and evaluation assets	3,569,024	3,614,117	2,952,472
Net deferred tax liabilities recognized	1,224,584	2,239,130	1,323,583

NOTES TO FINANCIAL STATEMENTS

For the years ended September 30, 2012 and September 30, 2011

26. First-time adoption of IFRS

These are Pétrolia's first financial prepared in accordance with IFRS. The date of IFRS adoption by the Company is October 1, 2011. However, the date of transition from Canadian GAAP to IFRS is October 1, 2010, the date of the first comparative period.

The significant accounting policies set out in Note 4 have been applied in preparing the financial statements for the year ended September 30, 2012, the comparative information and the first statement of financial position on the date of transition.

The financial statements have been prepared in accordance with IFRS 1 *First-Time Adoption of International Financial Reporting Standards*. An explanation of how the transition to IFRS has affected reported equity, comprehensive income and cash flow is set out in this note and in greater detail in the notes accompanying the tables.

First application – applicable exceptions and exemptions

At the time of transition, IFRS 1 dictates certain required exceptions and optional exemptions to complete retrospective application. The following exceptions and exemptions were adopted by the Company:

REQUIRED EXCEPTIONS

a) Estimates

Estimates established according to IFRS by the Company on the date of transition are in accordance with the estimates established on the same date in accordance with accounting standards in effect before the changeover, after adjustments for differences in accounting practices, if applicable.

b) Derecognition of financial assets and liabilities

Financial assets and liabilities that were derecognized before October 1, 2010 according to GAAP were not recognized according to IFRS.

OPTIONAL EXEMPTION

The Company decided not to retrospectively apply IFRS 2 *Share-based Payment* to share options issued before November 7, 2002 and to options issued after November 7, 2002, which vested before the date of transition, October 1, 2010.

Impairment losses recognized on date of transition

The Company applied IAS 36 *Impairment of Assets* to determine if impairment losses had taken place on the date of transition to IFRS. No impairment losses (or reversals) were identified.

Measurements used in this analysis were consistent with measurements used in accordance with the accounting standards in effect on the same date before the changeover, after readjustments to reflect any difference in accounting practices, if applicable.

Reconciliation notes

The sections below indicate material differences between Canadian GAAP and the IFRS practices the Company now applies.

a) Shares issued as part of flow-through financing

According to the accounting standards in effect before the changeover to IFRS, the total proceeds received on the issuance of flow-through shares were credited to share capital. Upon renunciation of deductions related to exploration expenses, temporary taxable differences were created and deferred tax was recognized. Related expenses were treated as share issuance costs.

Under IFRS, the issuance of flow-through shares is recognized as a compound financial instrument. The liability component represents the obligation to transfer tax deductions to investors. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and any residual in the proceeds, which represents the premium, is allocated to the liability, which is reversed in net earnings as a flow-through premium when eligible expenditures are incurred.

There are no exemptions under IFRS 1 for first-time adopters regarding flow-through shares; therefore, the IFRS treatment applies retrospectively.

Effects of this measure

The eligible expenses having been incurred, liabilities of $637,500 were transferred from share capital to retained earnings at October 1, 2010. In addition, the deferred tax expense related to flow-through shares of $2,793,592 was transferred from share capital to retained earnings.

b) Presentation differences

Some presentation differences between the accounting practices in effect before the changeover and IFRS have no effect on the reported income or total equity, notably regarding the treatment of the contributed surplus of expired share options and the grouping of "Oil and gas properties" and "Deferred exploration expenses" under "Exploration and evaluation assets."

As shown in the following tables, certain items are described differently in IFRS (renamed) compared with the previous GAAP terms. These presentation differences have no effect on the reported comprehensive income or total equity.

c) Change of rate for calculating deferred tax

Under Canadian GAAP, an entity was required to show in earnings any changes subsequently made to tax rates and tax laws for items previously recognized in other comprehensive income or in equity.

IFRS requires certain items to be directly recognized in equity, particularly a change in the tax rate or other tax rule that affects a deferred tax asset or liability related to an item that was previously recognized in equity.

Effects of this measure

On October 1, 2010, $28,315 was transferred from retained earnings to share capital.

For the year ended September 30, 2011, $10,292, representing the change in tax rate, was transferred from comprehensive income for the year to share capital. A cumulative total of $38,607 was therefore transferred from retained earnings to share capital.

Reconciliation between IFRS and Canadian GAAP

The following tables show the effects of the transition to IFRS, according to the following reconciliations:

- Reconciliation of equity at October 1, 2010 and September 30, 2011;
- Reconciliation of the statement of financial position at October 1, 2010 and September 30, 2011;
- Reconciliation of the statement of comprehensive income for the year ended September 30, 2011.

It should be noted that the transition to IFRS has no material impact on the Company's statement of cash flows.

Reconciliation of equity	2011 As at September 30 $	2010 As at October 1 $
Equity according to Canadian GAAP	34,103,341	26,605,625
Effects of the transition to IFRS:		
Transfer of contributed surplus – expired share options to contributed surplus		
• contributed surplus – expired share options	(903,797)	(783,366)
• contributed surplus	903,797	783,366
Issuance of flow-through shares		
Premium on issue price		
• share capital	(637,500)	(637,500)
Deferred tax transferred from share capital to retained earnings		
• share capital	2,793,592	2,793,592
• retained earnings	(2,793,592)	(2,793,592)
Tax rate change adjustment		
Deferred tax transferred from share capital to retained earnings		
• share capital	(38,607)	(28,315)
• retained earnings	38,607	28,315
Termination of flow-through work		
• retained earnings	637,500	637,500
Equity under IFRS	34,103,341	26,605,625

NOTES TO FINANCIAL STATEMENTS

For the years ended September 30, 2012 and September 30, 2011

Reconciliation of the statement of financial positions as at October 1, 2010

Items under Canadian GAAP	Amounts under Canadian GAAP		Effects of transition to IFRS	Amounts under IFRS	Items under IFRS
	$		$	$	
ASSETS					**ASSETS**
Short-term assets					**Current**
Cash and cash equivalents	1,949,055		–	1,949,055	Cash and cash equivalents
Debts	2,920,900		–	2,920,900	Receivables
Prepaid expenses	70,372		–	70,372	Prepaid expenses
Current portion of investments	754,331		–	754,331	Current portion of investments
	5,694,658		–	5,694,658	
					Non current
Fixed assets	213,159		–	213,159	Fixed assets
		b)	25,087,040	25,087,040	Exploration and evaluation assets
Oil and gas properties	3,852,629	b)	(3,852,629)	–	
Deferred exploration assets	21,234,411	b)	(21,234,411)	–	
	25,300,199		–	25,300,199	
	30,994,857		–	30,994,857	
LIABILITIES					**LIABILITIES**
Short-term liabilities					**current**
Payables and accrued expenses	822,339		–	822,339	Trade and other payables
Loan	2,243,310		–	2,243,310	Loans and borrowings
	3,065,649		–	3,065,649	
					Non current
Future taxes	1,323,583		–	1,323,583	Deferred tax liabilities
	4,389,232		–	4,389,232	
SHAREHOLDERS' EQUITY		a)	2,793,592		**EQUITY**
		a)	(637,500)		
Share capital	28,288,874	c)	(28,315)	30,416,651	Share capital
Contributed surplus – Stock options	1,300,615	b)	783,366	2,083,981	Contributed surplus
Contributed surplus – Expired stock options	783,366	b)	(783,366)	–	
		a)	(2,793,592)		
		a)	637,500		
Deficit	(3,767,230)	c)	28,315	(5,895,007)	Retained earnings
	26,605,625		–	26,605,625	
	30,994,857		–	30,994,857	

Reconciliation of the statement of financial position as at September 30, 2011

Items under Canadian GAAP	Amounts under Canadian GAAP		Effects of transition to IFRS	Amounts under IFRS	Items under IFRS
	$		$	$	
ASSETS					**ASSETS**
Short-term assets					**Current**
Cash and cash equivalents	8,151,034		–	8,151,034	Cash and cash equivalents
Debts	4,617,371		–	4,617,371	Receivables
Inventories	61,619		–	61,619	Inventories
Prepaid expenses	141,158		–	141,158	Prepaid expenses
Current portion of investments	930,000		–	930,000	Current portion of investments
	13,901,182		–	13,901,182	
					Non current
Immobilisations corporelles	931,779		–	931,779	Immobilisations corporelles
		b)	25,703,789	25,703,789	Actifs d'exploration et d'évaluation
Propriétés pétrolières et gazières	3,148,005	b)	(3,148,005)	–	
Frais d'exploration reportés	22,555,784	b)	(22,555,784)	–	
	26,635,568		–	26,635,568	
	40,536,750		–	40,536,750	
LIABILITIES					**LIABILITIES**
Short-term liabilities					**Current**
Payables and accrued expenses	1,469,518		–	1,469,518	Trade and other payables
Loan	2,243,310		–	2,243,310	Loans and borrowings
Provision for sites restoration	135,500		–	135,500	Provision for sites restoration
	3,848,328		–	3,848,328	
					Non courants
Deferred rental incentives	112,273		–	112,273	Deferred rental incentives
Provision for sites restoration	233,678		–	233,678	Provision for sites restoration
Future taxes	2,239,130		–	2,239,130	Deferred tax liabilities
	2,585,081		–	2,585,081	
	6,433,409		–	6,433,409	
SHAREHOLDERS' EQUITY		a)	2,793,592		**SHAREHOLDERS' EQUITY**
		a)	(637,500)		
Share capital	33,314,786	c)	(38,607)	35,432,271	Share capital
Contributed surplus – Stock options	1,491,320	b)	903,797	2,395,117	Contributed surplus
Contributed surplus – Expired stock options	903,797	b)	(903,797)	–	
		a)	(2,793,592)		
		a)	637,500		
Deficit	(1,606,562)	c)	38,607	(3,724,047)	Retained earnings
	34,103,341		–	34,103,341	
	40,536,750		–	40,536,750	

NOTES TO FINANCIAL STATEMENTS

For the years ended September 30, 2012 and September 30, 2011

Reconciliation of the statement of comprehensive income at September 30 2011

Items according to Canadian GAAP	Amounts under Canadian GAAP		Effects of transition to IFRS	Amounts under IFRS	Items under IFRS
	$		$	$	
Revenue					**Other income**
Project management	44,854		–	44,854	Project management
Interest income	133,587		–	133,587	Interest revenue
	178,441		–	178,441	
Operating and administrative expenses					**Administrative expenses**
Share-based compensation	500,208		–	500,208	Share-based payments
Salaries and fringe benefits	1,592,822		–	1,592,822	Salaries and benefits
Insurance	55,459		–	55,459	Insurance
Transportation	173,770		–	173,770	Transportation
Maintenance and office supplies	99,401		–	99,401	Maintenance and office supplies
Training	21,414		–	21,414	Training
Bank fees	8,504		–	8,504	Bank fees
Board of directors expenses	141,546			141,546	Board of directors expenses
Information for shareholders	74,493		–	74,493	Information for shareholders
Interest on loan	89,201		–	89,201	Interest on debt
Office rent	170,504		–	170,504	Office rent
Promotion and entertainment	121,421		–	121,421	Promotion and entertainment
Professional fees	186,479		–	186,479	Professional fees
Capital tax	3,000		–	3,000	Capital tax
Telecommunications	24,643		–	24,643	Telecommunications
Depreciation of fixed assets	126,114		–	126,114	Depreciation of fixed assets
Other expenses	31,840		–	31,840	Other expenses
Allocation to deferred exploration work	(1,159,762)		–	(1,159,762)	Allocation to deferred exploration
	2,261,057		–	2,261,057	
Other items					**Other items**
Gain on disposal of interest in certain licenses	5,158,607		–	5,158,607	Gain on disposal of interest in certain licenses
	2,897,550		–	2,897,550	
Earnings before income taxes	3,075,991		–	3,075,991	**Earnings before taxes**
Future income tax	915,323	c)	(10,292)	905,031	Deferred tax
Net income and comprehensive income	2,160,668		–	2,170,960	**Net earnings and comprehensive income for the year**
Basic earnings per share	0.042		–	0.042	**Basic earnings per share**
Diluted earnings per share	0.041		–	0.041	**Diluted net earnings per share**
Basic weighted average number of shares outstanding	51,249,243		–	51,249,243	**Basic weighted average number of shares outstanding**
Diluted weighted average number of shares outstanding outstanding	52,629,390		–	52,629,390	**Diluted weighted average number of shares outstanding**

27. Subsequent event

On December 7th, 2012, the Company as entered into a engagement letter for a private placement of up to 2,500,000 flow-trough shares at a price of $ 1.20 per share, for a maximum gross proceeds of up to $ 3,000,000.

APPENDICES

For the years ended September 30, 2012 and September 30, 2011

	2012	2011
	$	$
A - ADMINISTRATIVE EXPENSES		
Share-based payments	506,709	458,883
Salaries and benefits	1,080,195	717,137
Insurance	58,445	52,546
Maintenance and office supplies	107,828	65,847
Board of directors expenses	162,756	141,546
Information for shareholders	87,560	74,493
Office rent	124,331	105,395
Promotion and entertainment	460,040	121,421
Travel	190,839	134,940
Professional fees	721,032	177,335
Capital tax	(12,663)	3,000
Telecommunications	12,920	15,095
Depreciation of fixed assets	117,125	69,362
Other expensess	5,718	26,352
	3,622,835	2,163,352
B - OPERATING EXPENSES		
Share-based payments	132,983	41,325
Salaries and benefits	1,143,448	875,685
Insurance	10,926	2,913
Maintenance and office supplies	37,409	33,554
Travel	24,002	38,830
Training	15,435	21,414
Office rent	150,318	65,109
Professional fees	3,469	9,144
Telecommunications	8,854	9,548
Depreciation of fixed assets	149,696	56,752
Other expenses	7,154	5,488
Allocation to deferred exploration assets	(1,683,694)	(1,159,762)
	–	–
C - FINANCIAL INCOME AND EXPENSES		
Interest income (Note 17)	(236,680)	(133,587)
Accretion expense	12,268	–
Bank fees	6,430	8,504
Interest on debt	8,315	89,201
	(209,667)	(35,882)

Board of directors

André Proulx
President and Chief Executive Officer

David Mc Callum
Director

Albert Wildgen
Director

Erick Adam
Director

Myron A. Tétreault
Director

Jacques L. Drouin
Director

Auditors

Mallette, LLP
Rimouski, Canada

Legal counsel

Colby, Monet, Demers, Delage & Crevier
Michel Hudon, Attorney
Montréal

Listed shares - transfert agent

Computershare Trust Company
of Canada
Montréal

Shares listed

TSX Venture Exchange
Symbol: PEA

Capital stock

66,585,750 common shares issued
as at September 30, 2012

The Annual Meeting of the Shareholders of Pétrolia will be held on Friday, March 1, 2013 at 10:00 a.m. at the Holiday Inn Montréal Midtown (Les Verrières room) at 420 Sherbrooke West Street, Montréal QC H3A 1B4.

Quebec's Leader in Oil Exploration

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