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ANNUAL REPORT 2013

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PRESIDENT'S MESSAGE TO SHAREHOLDERS

IN LESS THAN A DECADE, PÉTROLIA MANAGED TO CHANGE PERCEPTIONS OF THE HYDROCARBON POTENTIAL OF QUEBEC BASEMENT. QUEBEC CAN LEGITIMATELY ASPIRE TO INCREASING ITS ENERGY INDEPENDENCE AND FORESEE ENVIABLE ECONOMIC DEVELOPMENT PERSPECTIVES.

From the very beginning, Pétrolia has been driven by its conviction that eastern Quebec holds hydrocarbon potential. That is the vision that has led the Corporation every step of the way, in the hopes that Quebec would one day become an oil producer.

The Corporation's results to date confirm that potential. The Haldimand deposit was the first discovery of commercially exploitable oil in Quebec. On Anticosti, our results have indicated the presence of an initial 34 billion barrels of oil in the Macasty Formation. To these already compelling results, we can add the presence of over 1 Tcf (trillion cubic feet) of wet natural gas in the two bored wells of the Bourque project. In light of these facts, the hydrocarbon potential of eastern Quebec is evident and has raised enough interest to launch more extensive exploration programs.

The Corporation and its shareholders owe these results in large part to their employees, whose skill, energy, and motivation have pushed Pétrolia to the forefront of oil and gas exploration in Quebec. I am grateful to the entire team for its contribution and I wish to thank everyone for their great work. The quality of our human resources is undoubtedly our Corporation's greatest strength.

In less than a decade, Pétrolia has managed to change perceptions regarding the hydrocarbon potential to be found under Quebec soil. Though currently required to turn to imports for over half its energy needs and 100% of its oil needs, Quebec can legitimately aspire to increasing its energy independence and foresee enviable economic development perspectives.

Pétrolia continues to pursue its objective of becoming a major player in developing the formidable potential it has discovered. During the last fiscal year, Pétrolia's management has worked hard to create the tools and conditions that will allow us to face the challenge of becoming an oil producer and overcome the obstacles that may arise.

We are aware that there is little understanding of the oil industry in Quebec. Prejudices often far removed from 21st century realities persist. The industry is developing in Quebec at a time when, like in other places, we are seeking to reduce oil consumption. However, Quebecers are also aware that future changes in energy consumption will occur gradually, over a number of decades. Knowing this, and according to our surveys, most Quebecers are in favour of developing this high-tech industry and reaping the economic benefits it can bring. Quebec has the resources, expertise, and ability to manage that development in accordance with its values.

Quebecers are also aware that oil will play an important role in meeting the province's energy needs over the next decades, and that transitioning from importing 100% of this energy source to drawing on local production will deliver significant economic benefits. Achieving energy efficiency in no way precludes developing local oil production capacity. And sourcing more oil locally will create new opportunities in most other industries.

Still, the oil industry is sure to encounter obstacles and setbacks. In concrete terms for Pétrolia, that has already meant having to interrupt drilling on the Haldimand 4 wells, which was at a standstill throughout the last fiscal year.

The Corporation has dedicated years of efforts and resources to developing the Haldimand deposit with transparency and according to applicable legislation and the industry's highest standards. Drilling at Haldimand 4 will be directional, without hydraulic fracking. The products used will be chosen based on a toxicological study to ensure they are as harmless as possible. Site development at Haldimand 4 well exceeds standards, and the Corporation has undertaken an unprecedented hydrogeological study of the area—the first of its kind in the industry in Quebec.

The same approach guides us on Anticosti Island and in all our other projects. I remain convinced that this is the best approach, in the long term, to build our credibility and foster good local relations. Using scientific data and established facts, remaining open in our search for solutions and our interactions, and acting according to our commitments are the best ways to attain our objectives.

As a last resort, we may have to defend our rights in court. The decision in our favour by the Superior Court last February (appealed by the City of Gaspé) is only a partial solution. That's why, long before the courts will hear our argument, we have reopened the channels of communication with municipal authorities, continued to collaborate with the government, and pursued our relations with the public. We intend to continue these efforts to maintain open and transparent dialogue with the government and the public so we can resume our work in a positive social climate. Our objective remains the same: to make the Haldimand deposit Quebec's first commercially exploited oil deposit.

Developing Quebec's potential will require considerable financial resources. The recent signing of an agreement between the Government of Quebec, Établissements Maurel & Prom, and Corridor Resources Inc. is the concrete result of work done by Pétrolia management during the last fiscal year. This strategic alliance will accelerate the Anticosti project and ensure that our Corporation continues to play a key role.

With this agreement, the new partnership (in which Pétrolia will act as an operator and hold a 21.7% interest) will carry out exploration on Anticosti to demonstrate what commercially viable resources it holds. The first $100 million of these efforts will be financed by the Government of Quebec and Maurel & Prom. The agreement establishes that Quebecers will hold a controlling interest in the project. These points are in line with our Corporation's objectives and fit with our vision for developing Quebec's oil industry. They lay the foundation of social acceptance for the project locally, regionally, and across Quebec.

This same spirit was behind last July's new partnership agreement with Maurel & Prom subsidiary Saint-Aubin Énergie. Through this agreement, we acquired an interest in an area over 1,800 km2 in size in the Gaspé and Lower St. Lawrence regions.

The coming year looks very promising in that regard. The biggest exploration program in the history of Anticosti Island, the relaunch of the Haldimand project, the continuing search for a partner for the Bourque project, and the establishment of an exploration program on the property acquired in 2013 are just a few of the activities planned for 2014. We could be on the verge of the first-ever production in the history of Pétrolia.

Last September, the board of directors announced a new succession plan. I was elected chairman of the board and appointed interim president and CEO with the specific mandate of implementing the announced agreements, advancing our main projects, and identifying someone to lead the Corporation in this venture. Mr. Alexandre Gagnon, appointed

executive vice-president, and the other members of the board will aid me in this task. In addition, the appointment of Mr. Gildas Collin to the position of Chief Operating Officer reflects the board of directors' desire to add to the Corporation's technical expertise in anticipation of the expected developments.

The transition from exploration to production entails major organizational challenges, particularly increasing our workforce to meet our obligations and integrating the new workers efficiently into the organization. The fiscal year ended December 31, 2013, was a time for introducing the tools our Corporation will use to become the producer it has wanted to be from the start.

In closing, I wish to thank Mr. André Proulx for his incredible contribution to Pétrolia's growth from the start. His vision and energy over his many years at the Corporation's helm have helped make Pétrolia what it is today.

VISION

Projects are developed according to a rigorous process that is mindful of communities and the environment.

- Pétrolia is an oil exploration company founded and based in Quebec. As the province's leading oil explorer, Pétrolia plays a key role in Quebec hydrocarbon and oil exploration.
  - Since its founding in 2003, Pétrolia has focused on the search for oil in eastern Québec. Its efforts in Gaspé and on Anticosti Island have been rewarded with the discovery of major oil potential.
  - Exploitation of this natural resource would represent a huge opportunity for Quebec in terms of wealth creation and strategic economic development.

- To accelerate these projects, the Corporation is seeking strategic alliances with partners whose technical and financial contribution can help it move forward in accordance with its values.
  - The Corporation is in charge of decision-making and carries out the actual work. The agreements with Québénergie and Saint-Aubin Énergie (a subsidiary of Maurel & Prom) and the agreement on Anticosti (Ressources Québec – Corridor Resources – Établissements Maurel & Prom – Pétrolia) designate Pétrolia as project operator.
  - Pétrolia ensures that its partnership agreements provide it with greater technical expertise. The Corporation also calls on the expertise of specialized firms. It continually seeks to add to its expertise and knowledge, particularly in terms of safety and respect for the environment.

- Projects are developed according to a rigorous process that is mindful of communities and the environment. Here are some examples:
  - Pétrolia uses a meticulous science-based process in all its ventures.
  - Pétrolia has the most experienced technical team in Quebec for planning and carrying out operations and calls upon recognized external experts as needed.
  - The Corporation applies the industry's best practices in terms of technology, the environment, and local relations.
  - In communities where it operates, Pétrolia seeks to initiate a constructive dialogue based on scientific rigor, education, and transparency.
  - Pétrolia ensures that local communities reap as many economic benefits as possible and uses local expertise whenever available.
  - The Corporation trains local workers and transfers technology to local companies to maximize economic spinoffs.
  - The Corporation minimizes the environmental impact of its work and applies standards that surpass regulatory requirements.

- Pétrolia relies on research to improve its practices and regularly works with recognized institutions (e.g., INRS, Laval University, University of Quebec at Chicoutimi).

➢ The energy resources beneath Quebec soil offer the economic development opportunities Quebec needs. Pétrolia is determined to ensure that this collective resource will be developed with respect for and in the interest of its shareholders and all Quebecers. Pétrolia is a Quebec-based company that respects Quebec's communities and values, particularly with regard to environmental quality. More than just a slogan, "Oil from here, by the people here, for here." is central to and perfectly describes the Corporation's vision. Pétrolia can play a key role in developing a responsible oil industry in Quebec. Its Quebec identity combined with its force and determination are the key to success for Pétrolia, its shareholders, and all Quebecers who believe in the importance of creating an oil industry in Quebec.

OIL FROM HERE,

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REVIEW

OF THE FISCAL YEAR

We are poised to play a key role in developing the vast oil production potential that lies under foot in eastern Quebec.

During the fiscal year ended December 31, 2013, Pétrolia confirmed the potential of its land holdings in eastern Quebec. We consolidated our positions on the Gaspé Peninsula and developed tools to accelerate our projects and manage our growth in the coming years. We also pursued efforts to secure public support for our projects and thereby facilitate creation of an oil industry in Quebec.

The hydrocarbon potential of explored territories

During the early months of the year, Pétrolia drilled bored wells for the Bourque project and stratigraphic coreholes on Anticosti Island. The results revealed the hydrocarbon potential of areas where the Corporation is active.

With more than 1 Tcf (trillion cubic feet) of wet natural gas at or near Bourque 1 and Bourque 2, the Corporation undertook to :

- determine the nature of the work needed to develop the project;
- seek out a development partner;
- identify potential buyers of future hydrocarbon production;
- review all data to locate features similar to the Bourque project's on lands for which it holds permits.

The oil resources identified on Anticosti Island (nearly 34 billion barrels of oil initially) were met with great interest in Quebec. Collecting new geological data and drilling oil wells in the Macasty Formation will be crucial to determining whether that potential can be exploited.

The economic development that will stem from any future oil production raises legitimate questions, particularly with regard to environmental impacts. Our approach to environmental protection has therefore been prudent and responsible at Pétrolia:

- We launched a hydrogeological study in fall 2011 and have built 10 observation wells.
- We are continuing our collaboration with the Anticosti Chair at Laval University by supporting research to identify the impact of oil operations on the behavior of white-tailed deer.

Drilling suspended at Haldimand 4

Pétrolia suspended drilling at the Haldimand 4 well after the town of Gaspé adopted a bylaw to protect drinking water. The well was intended to demonstrate that the deposit holds economic potential and to determine its possible scope. Haldimand is our most advanced project. Drilling at Haldimand 4, in addition to enabling us to begin production at a deposit with recoverable resources estimated at 7.7 million barrels of oil, will be an opportunity to test various hypotheses of key importance to how the 13 other permits in the Gaspé bloc should be explored. Despite making every effort to find a solution to the dispute with the municipality, we resigned ourselves to arguing our case before the Superior Court. In a decision released in February 2014, the court ruled in favor of the Corporation and struck down the town bylaw. The town has appealed the decision.

Consolidation of our positions on the Gaspé Peninsula

In keeping with our strategic development strategy, Pétrolia and Saint-Aubin Énergie S.A.S. (a subsidiary of Maurel & Prom) acquired 13 new permits in the Gaspé and Lower St.-Lawrence regions from Gastem. Divided into 2 blocs, these permits total 1,800 km2. In fall 2013, a corehole 1,800 meters deep was drilled. The core samples are currently being analyzed.

Managing growth

Several changes were made to our executive team at Pétrolia to meet our growing human resource needs. A succession plan was drawn up, and a chief of operations was recruited to coordinate upcoming work. This is all part of our desire to adapt to the needs that will arise as our projects unfold.

Accelerating development on Anticosti Island

Management devoted a good part of the year to negotiating an agreement to accelerate the development of the oil potential in the bedrock of Anticosti Island. The negotiations concluded in April 2014. This partnership agreement involved Ressources Québec (a subsidiary of Investissement Québec), Établissements Maurel & Prom (a subsidiary of Maurel & Prom), Corridor Resources Inc., and Pétrolia. Under its terms, Ressources Québec holds a 35% interest in each of the 38 permits (over 6,000 km2), while Pétrolia and the two other partners each hold 21.7%. We at Pétrolia are thrilled with this agreement as it helps achieve a goal we have steadfastly pursued: accelerate the development of Anticosti Island's bedrock oil potential.

Continuing community relations efforts

Pétrolia continued to stress relations with the community and government authorities throughout the year. Highlights include:

- Hiring a community relations officer tasked with integrating Pétrolia's work into island life. The person hired has been an island resident for years.
- Opening an office to provide a direct contact with the public and manage operational logistics.
- Revealing all details last September of the 2008 agreement between Hydro-Québec and Pétrolia by which we acquired interests on Anticosti Island. This uncommon move is in keeping with the importance we place on transparency.
- The upcoming release by *Ministère du Développement durable, de l'Environnement, de la Faune et des Parcs (MDDEFP)* of the final report on the hydrogeological study carried out on the Haldimand Peninsula. This report, which was expected around March 31, 2014, will address the concerns expressed in the region regarding the impact of drilling on the water table.

- The tabling of a memorandum on the draft regulation by MDDEFP on the sampling and protection of drinking water. Once passed, this regulation will establish minimum distances the oil industry must comply with regarding drinking water intakes. We support the ministry's initiative because it will standardize regulation across Quebec and reassure the public that drinking water is protected.

At the close of the fiscal year ended December 31, Pétrolia remains the uncontested leader of oil and gas exploration in Quebec. The results of our work, the partnership agreements we have signed, and the administrative changes we have announced point to the Corporation's will and determination to see an oil industry emerge in Quebec. We are poised to play a key role in developing the vast oil production potential that lies under foot in eastern Quebec.

A RESPONSIBLE COMPANY

MANAGEMENT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2013

- This management report covers the period from October 1, 2012 to December 31, 2013. This 15-month period is due to a change in the Company's fiscal year, which is henceforth the same as the calendar year.

- This annual management report was approved by the Board of Directors on March 13, 2014.

- It presents the view of Management on current Company activities and is accompanied by the financial results as at December 31, 2013. It may also cite significant events that occurred after December 31, 2013, and provides an overview of the activities planned for the months ahead.

- The reporting currency is the Canadian dollar (CAD) and all amounts presented in this report are in Canadian dollars.

1. DATE

- The effective date of this management report for the year ended December 31, 2013 is March 13, 2014.

2. HIGHLIGHTS

- A letter of intent was signed between Pétrolia, Ressources Québec (a subsidiary of Investissement Québec), Établissement Maurel & Prom and Corridor Resources Inc. for a $100 million exploration program on Anticosti Island (press release dated February 13, 2014)

- A partnership agreement was signed between Pétrolia and Saint-Aubin Énergie S.A.S. (Maurel & Prom and Maurel & Prom International) to acquire 13 exploration licences in the Gaspé and Bas-Saint-Laurent regions (press release dated July 19, 2013)

- Pétrolia announced implementation of its succession plan (press release dated September 17, 2013)

- Pétrolia completed three financings totalling $3.55 million

- Drilling of Haldimand 4 was suspended following the adoption of a bylaw by the City of Gaspé (press release dated January 24, 2013) and a favourable ruling was obtained from the Superior Court in the case brought against the City of Gaspé by Pétrolia (press release dated February 11, 2014). On March 6, 2014, the City of Gaspé decided to appeal the decision of the Superior Court.

- An independent evaluation by Sproule Associates estimated at 1 Tcf (one trillion cubic feet) the volume initially-in-place of wet natural gas in four prospects within the Bourque project (press release dated April 10, 2013)

- Core samples taken from Anticosti Island in 2012 yielded positive results, confirming those used in the independent resource estimate carried out in 2011 which established the best estimate of the Total Petroleum Initially-In-Place is 30.9 billions barrels of oil for the Pétrolia land interest holdings and the results from the Utica Formation in Ohio (press release dated January 14, 2013)

- The Côte-Nord and Anticosti Island communities came out in favour of oil exploration on Anticosti Island (press release dated July 30, 2013).

3. INCORPORATION AND MISSION

- Incorporated under Part 1A of the Quebec Companies Act and governed by the provisions of the Quebec Business Corporations Act, Pétrolia is an oil and gas exploration company. It has been listed 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, and the Company's long-term profitability is tied in part to the cost and success of the exploration programs and subsequent development. The Company has not yet established whether its properties contain economically feasible reserves.

- The Company's primary activities are the exploration and development of its oil and gas properties. In order to achieve its objectives, the Company has to form partnerships with other industry stakeholders.

4. FORWARD-LOOKING STATEMENTS

- Some of the statements made in this report may constitute 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, a decision to invest in Pétrolia's shares should at no time be based on these forward-looking statements. Pétrolia disclaims any intention or obligation to update these forward-looking statements.

5. OBJECTIVES AND STRATEGIC PLANS

- The Company's objective is to discover marketable oil resources and put them into production as quickly as possible, with the goal of becoming profitable. In the pursuit of this objective, the Company never loses sight of the importance of personal safety, environmental protection and community relations.

- Pétrolia achieves this objective by holding rights over promising licences and signing agreements with partners with the necessary technical and financial expertise. The Company drills wells according to scientific and technical knowledge, relying on best industry practices for its drilling activities. Protecting the health and safety of its workers and the local population are a priority for the Company when planning and executing exploration work. It also pays special attention to community relations and the local socio-economic context in which it operates, as well as to protecting the environment.

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

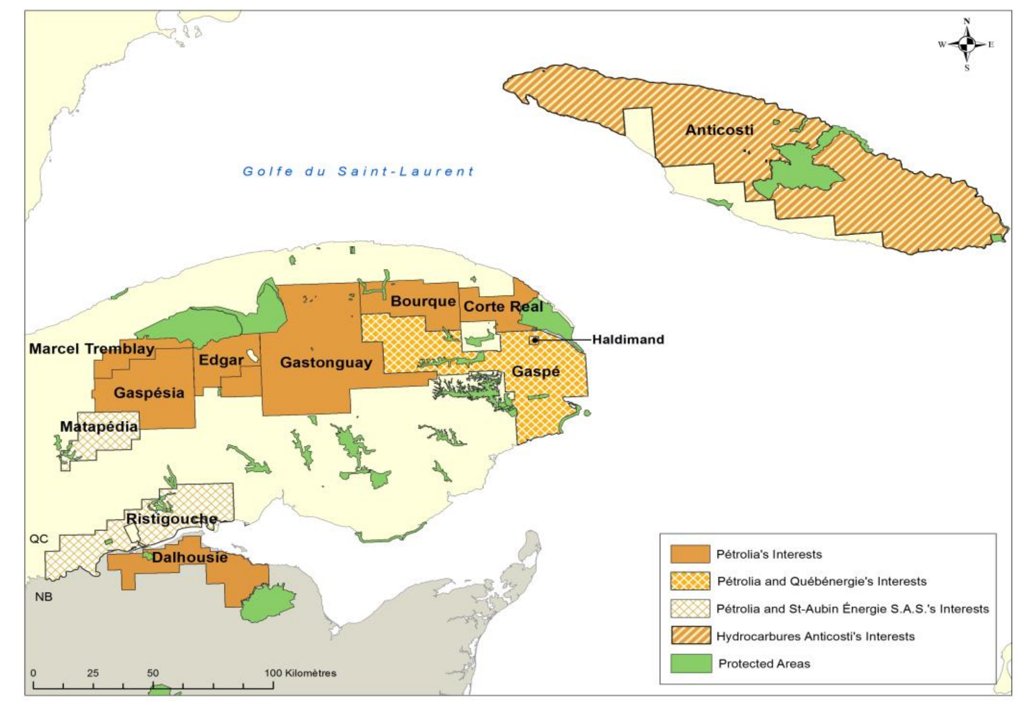
6. LICENCES AND PARTNERSHIPS

- Pétrolia holds licences for and interests in an area of over 16,000 square kilometres, i.e. close to 22% of the Quebec territory currently under lease. Located in Eastern Quebec and Northern New Brunswick, these areas are known for their oil potential. The areas in which Pétrolia holds interests may also contain natural gas and condensates.

- At December 31, 2013, the Company had three partnerships agreements covering parts of its holdings:

  - On the Gaspé block, Pétrolia and Québénergie hold a 50/50 share in each of the 13 licences, which cover approximately 2,500 square kilometres.
  - On the Anticosti block, Pétrolia holds a 25% to 50% share with Corridor Resources in 35 exploration licences. According to the terms of the letter of intent and subject to the closing of the agreement, the interests will be in 38 exploration licences that will be shared between Ressources Québec (35%), Pétrolia (21.67%), Établissements Maurel & Prom (21.67%) and Corridor Resources Inc. (21.67%) (press release dated February 13, 2014).
  - On the Baie-des-Chaleurs-Matapédia and Ristigouche blocks, Pétrolia and Saint-Aubin Énergie S.A.S. (a subsidiary of Maurel & Prom and Maurel & Prom International) hold a 50/50 share in 13 licences that cover over 1,800 square kilometres.
  - Pétrolia is the sole owner of the remaining licence blocks.

- The following map shows the location of Pétrolia's interests but excludes some of the areas contemplated by the letter of intent of February 13, 2014.



7. PROJECTS, WORK PROGRAMS AND OUTLOOK

7.1 Haldimand project (Gaspé block)

- Discovered in 2006, Haldimand is a conventional deposit located in the York River Formation, which consists of naturally fractured sandstone. An independent analysis by Sproule Associates in 2010 placed the best estimate of the Oil-Initially-In-Place (P50) at 69.7 million barrels and the recoverable (contingent) portion at 7.7 million barrels.

- Pétrolia and Québénergie own a 50/50 share in the 13 licences for the Gaspé block, which includes the Haldimand deposit. Under this agreement, Pétrolia acts as operator during the exploration phase.

- At the end of fall 2012, Pétrolia began drilling a third well, Haldimand 4. This is a directional well, whose horizontal portion should reach 2,000 metres. The horizontal drilling will be done at an optimal angle so as to cut across as many natural rock fractures as possible. The purpose of this exploratory well is also to determine how far the reservoir extends to the northwest in order to increase the resources contained in the deposit.

- Work was interrupted after the City of Gaspé adopted a bylaw on December 22, 2012 that imposed restrictions on drilling activities. As a result, no work was performed in 2013. The rig has been idle on the site since the work stopped.

- Following the Quebec government's announcement of its intention to carry out a hydrogeological study of the Haldimand area, Pétrolia put an end to its own study and agreed to transfer to the *Ministère du Développement durable, de l'Environnement, de la Faune et des Parcs* the observation wells it had drilled in 2012 on the Haldimand Peninsula. The Company also provided the Ministère with access to all the data it had collected for the hydrogeological study, undertaken in 2011.

- In early 2014, the Quebec Superior Court heard the interlocutory motion filed by Pétrolia in May 2013 to invalidate the bylaw adopted by the City of Gaspé. In a decision handed down on February 10, 2014, the Superior Court found in favour of Pétrolia and declared the municipal bylaw *ultra vires*. On March 6, 2014, the City of Gaspé decided to appeal the decision of the Superior Court.

- The Company has stated its intention to resume drilling Haldimand 4. However, it is prepared to wait for the results of the hydrogeological study taken over by the Quebec government, expected on March 31, before resuming drilling.

- If the result is positive for Haldimand 4, the partners will begin the process of obtaining an operating license so that the reservoir can be put into production. This well will also provide invaluable information that will be used to develop an exploration program for the entire Gaspé block.

7.2 Anticosti Project

- Pétrolia holds interests in 35 exploration licences covering an area of 5,698 square kilometres on Anticosti Island. Once the transaction closes, Pétrolia will transfer these licences to a limited partnership that will own 38 licences, in which it will retain a 21.7 % interest.

- The main goal of the Anticosti project is to develop the hydrocarbon source rock in the Macasty Formation and to determine whether this type of deposit can be developed economically. Based on information available on June 1, 2011, Sproule Associates placed its best estimate (P50) of the undiscovered Total Petroleum-Initially-In-Place volume for the 35 licences in which Pétrolia holds an interest at nearly 31 billion barrels. The limited partnership will have a total of 33.9 billion barrels initially in place.

- During the year ended December 31, 2013, Pétrolia unveiled the results of the three coreholes taken on Anticosti Island in 2012. These results are better than those used in 2011 to estimate the resources in place. They are also comparable and even better than those obtained from the Utica Formation in Ohio, recognized for its production of hydrocarbon source rock, which is similar to the Macasty Formation (same characteristics and geological age). The results show that the holdings in which Pétrolia holds interests lie within the hydrocarbon window, that the average value for total organic carbon (TOC) is close to 4.0% and that the hydrocarbon concentration in the rock (S_1) varies from 2.21 mg/g to 4.48 mg/g. In addition, petrophysical analyses confirm the presence of favourable porosities and permeabilities for the production of hydrocarbons for this type of formation. Lastly, mineralogical analyses revealed a small proportion of clay minerals, which favours rock fracturing and constitutes another positive criterion in terms of the production potential for this type of reservoir.

- On February 13, 2014, the Government of Quebec (via Ressources Québec), Établissements Maurel & Prom, Corridor Resources Inc. and Pétrolia announced that they had signed a letter of intent to form a strategic partnership on Anticosti Island. The transaction is scheduled to close by March 31, 2014. The aim of the agreement is to carry out up to $100 million in exploration work spread out over two years, beginning in summer 2014. The work will be financed by Ressources Québec (a subsidiary of Investissement Québec) and by Établissements Maurel & Prom (France's second-biggest oil company). Subject to certain conditions, the interests of the parties in the limited partnership are as follows: 35% for Ressources Québec, 21.7% for Pétrolia, 21.7% for Établissements Maurel & Prom and 21.7% for Corridor Resources Inc. The partners entrusted the role of operator to Pétrolia. The partnership will be overseen by a board of directors composed of five individuals: one representative from each of the partners and one independent director named by the partners.

- This agreement is the outcome of efforts made throughout the last year to find a partnership structure that will enable the Company to carry out a major exploration program aimed at developing the hydrocarbon source rock in the Macasty Formation, to align itself with well-known technical expertise and to play a leading role in the work.

- In the first phase, the partners have agreed to drill 15 to 18 stratigraphic surveys, followed by three exploration wells, with fracking, at a cost of $55 to $60 million. In addition to providing information about the

characteristics of the Macasty Formation, the stratigraphic surveys (2014) will assist in choosing the location for the three horizontal wells, with fracking, that are expected to be drilled in 2015. Should the exploration yield positive results and the joint venture's board of directors render a favourable decision, a second phase of drilling involving fracking will follow in 2016. The estimated cost for this second phase is $40 to $45 million.

- Pétrolia will carry out these operations in a way that promotes social acceptance of its projects. The agreement announced on February 13, 2014 does precisely that by allowing Quebecers to participate in and benefit from the economic returns of this project.

- Pétrolia's desire to be transparent and promote social acceptance of the project is also the reason the Company disclosed the terms of the 2008 agreement with Hydro-Québec.

- Pétrolia has always paid special attention to community relations. The hiring of a local representative and the opening of a permanent office in Port-Menier is in keeping with the Company's desire to keep the lines of communication open. The Company was pleased to see the municipality and region come out in support of oil exploration on Anticosti Island.

7.3 Bourque Project

- The Bourque project is located in a non-urbanized area, about 30 kilometres from the town of Murdochville.

- Drilling the Bourque 1 and Bourque 2 wells in 2012, wet natural gas (contains up to 20% natural gas liquids and condensates) was detected and condensate samples were taken from the Forillon Formation. The results obtained increases the interest in Pétrolia's other licences in the Gaspé, where similar geological conditions exist.

- The drilling revealed four prospects in the Forillon Formation for which Sproule Associates provided an estimate of the resources initially in place. Based on information available on March 31, 2013, Sproule estimated the undiscovered gas volume initially in place at over 1 Tcf (one trillion cubic feet).

- During the second quarter, Pétrolia developed a work program to identify the characteristics of the resources in place and to determine the potentially recoverable volumes. Pétrolia is currently studying the best way to deploy this exploration program and to this end is searching for a partner. The Company is also trying to find markets interested in this resource. Under these circumstances, it was deemed advisable for Pétrolia to defer the work.

7.4 Other properties

Matapédia

- In July 2013, Pétrolia and Saint-Aubin Énergie S.A.S. acquired from Gastem two blocks totalling 13 licences in the Baie-des-Chaleurs and Matapédia sectors. These licences cover an area of over 1,800 square kilometres. The two companies hold a 50/50 stake in the licences.

- In fall 2013, the partners drilled a stratigraphic survey to evaluate the potential of a known geological structure in the Casault Lake sector in the regional county municipality of Matapédia. The drilling reached a depth of 1,416 metres and confirmed the presence of gas in Silurian sandstone. A petrophysical analysis of the cores taken from the sandstone will help determine the characteristics of the structure. The two companies have pooled their expertise to put together an exploration program for these areas.

Other properties

- The Company is reviewing the data on its other properties in the Gaspé in order to identify areas with similar characteristics to those found in the Bourque project.

- Regarding Pétrolia's licences in New Brunswick, no work has been carried out on the properties. Pétrolia has little interest in investing in these properties at this time.

8. COMPANY'S EXPERTISE

- Pétrolia has a dynamic, motivated team, with highly skilled technical personnel, making it an industry leader in Quebec.

- On September 17, 2013, Pétrolia announced the implementation of a succession plan. Under this plan, Myron Tétreault was named interim President and CEO, Alexandre Gagnon was appointed Executive Vice-President, and Gildas Collin joined the team as Chief Operating Officer. The other members of the management team were also appointed.

- The anticipated development of the project in which Pétrolia is involved will require it to prepare the organization for the challenges of these new activities, which will require it to add additional expertise to its team. In light of this, the Company has initiated a recruitment process.

- As well, although its exploration programs adhere to best industry practices, the Company decided to review and update its health, safety and environmental plan to ensure it respects the most stringent standards.

A DYNAMIC AND MOTIVATED TEAM

MANAGEMENT ANALYSIS

OF FINANCIAL INFORMATION

OPERATING RESULTS AND CASH POSITION

Income for the 15-month period ended December 31, 2013, consisted of interest income from short-term investments of $104,985, compared with $236,680 for the 12-month period ended September 30, 2012, project management income of $67,374, compared with $22,340, and rental income of $15,048, compared with $12,156. Revenues from oil reservoir evaluations stood at $49,602, against $29,453 for the previous year, and are recorded as a reduction in exploration expenses.

The decrease in interest income stems from a decrease in cash balances due to major exploration work, including drilling of the Bourque 1 and Bourque 2 wells.

As at December 31, 2013, the Company had cash and cash equivalents of $4,987,641 including $904,737 held for exploration and working capital of $5,821,736.

For fiscal year 2013, the Company recorded a loss of $5,525,409, compared to a loss of $3,019,033 for the previous year.

Management does not believe it will have sufficient cash to meet its obligations and projected expenses until December 31, 2014. Any 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.

ANALYSIS OF OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses rose $2,830,000, mainly due to the length of the 2013 fiscal year, which consisted of 15 months compared to 12 months in 2012, and an increase in exploration activities and costs associated with social acceptance of its projects.

The main differences in the operating and administrative expenses are as follows:

- Share-based payments: 3,670,000 options were granted in 2013 with an established value of $1,986,025, compared to 1,341,000 options in 2012 with a value of $639,692.
- Salaries and benefits: Operations-related payroll increased slightly. Administrative personnel were hired to meet the needs of the community and government authorities. Severance pay in the amount of $333,333 was also recorded.
- Depreciation of property, plant and equipment: The increase in the depreciation expense is mainly due to the depreciation of three reservoirs.

SELECTED ANNUAL INFORMATION

	2013 $ (12 months)	2012 $ (12 months)
Income (including financial income)	187,407	271,176
Profit or loss	(5,525,409)	(3,019,033)
Basic earnings per share	(0.081)	(0.051)
Diluted earnings per share	(0.081)	(0.051)
Total assets	53,079,372	52,400,180
Dividend per share	N/A	N/A

SUMMARY OF QUARTELY RESULTS

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

	2013				2012
	December $	September $	June $	March $	December $
Income (including financial income)	32,516	21,029	34,682	58,053	41,127
Net earnings (net loss)	(2,139,356)	(1,205,541)	(500,545)	(538,863)	(1,141,104)
Net earnings (net loss) per share					
Basic	(0.031)	(0.014)	(0.007)	(0.008)	(0.017)
Diluted	(0.031)	(0.014)	(0.007)	(0.008)	(0.017)

	2012			2011
	September $	June $	March $	December $
Income (including financial income)	93,806	50,430	48,451	78,489
Net earnings (net loss)	(494,129)	(675,032)	(699,230)	(1,150,642)
Net earnings (net loss) per share				
Basic	(0.010)	(0.012)	(0.013)	(0.022)
Diluted	(0.010)	(0.012)	(0.013)	(0.022)

Income essentially consists of interest earned, rental income 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:

2011 - December	Recognition of share-based payment of $558,992.
2012 - February	Recognition of share-based payment of $80,700.
2012 - December	Recognition of share-based payment of $913,906.
2013 - March	Recognition of share-based payment of $128,700.
2013 – Mai	Recognition of share-based payment of $94,500.
2013 - August	Recognition of share-based payment of $52,265.
2013 - September	Recognition of share-based payment of $280,000.
2013 - December	Recognition of share-based payment of $485,586.

FIFTH QUARTER

The fifth quarter closed with a loss of $2,139,356 ($0.042 per share). Income for the quarter stood at $32,516.

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

	For the year ended	
	December 31, 2013 (15 months) $	September 30, 2012 (12 months) $
Short-term employee benefits:		
Salaries and benefits	1,053,907	685,882
Termination benefit	333,333	-
Attendance fees	134,716	126,817
Total short-term benefits	1,521,956	812,699
Fees	112,500	-
Share-based payments	1,656,356	473,206

Total remuneration	3,290,812	1,285,905

Key management remuneration includes the following expenses: During the year ended December 31, 2013, key management exercised 460,000 options (547,500 – 2012) granted under the share-based compensation plan. As well, loans totalling $120,000 (2012 – $0) were granted to two officers under the loan program for the exercise of share options. These loans bear interest at the Bank of Canada overnight rate. The entire loan will be offset by the termination benefit. The net benefit presented in liabilities is $213,333.

Related parties

The Company entered into transactions:	For the year ended	
	December 31, 2013	**September 30, 2012**
With two companies whose main officer (holding a minority interest) also serves on Pétrolia's Board:	**$**	**$**
Statement of financial position:		
Exploration and evaluation assets	17,142	5,300
Statement of comprehensive income:		
Other expenses	11,514	9,110
With a director acting as a consultant for the Company:		
Statement of financial position:		
Exploration and evaluation assets	-	2,063
With a company in which a director is a majority shareholder:		
Statement of comprehensive income:		
Other expenses	10,000	-
With a company in which a director is a minority shareholder:		
Statement of financial position:		
Exploration and evaluation assets	-	9,500

With a close relative of a member of management, who provided services to the Company:

Statement of financial position:		
Property, plant and equipment	-	10,685
Statement of comprehensive income:		
Office maintenance	1,814	11,605

At December 31, 2013, an amount of $11,959 (September 30, 2012 – $0) is owing from a company whose main officer holds a minority interest in and also serves on Pétrolia's Board.

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 et de la Faune du Québec, the Company has committed to pay fees in the amount of $1,114,623 by 2016. The minimum payments due during the upcoming years are as follows:

2014	2015	2016
$140,283	$487,170	$487,170

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 December 31, 2013, and excluding work that will be performed by 2017 (licence renewal date), the minimum work requirements are $667,041 in 2015, $918,396 in 2016 and $1,969,139 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 six companies for the rental of offices and a house until 2016. The balance of the commitments under these leases, excluding joint charges, is $699,295.

The minimum payments due during the upcoming years are as follows:

2014	2015	2016
$307,444	$276,600	$115,251

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 beginning in 2012. A portion of these costs could potentially be assumed by a partner.

The minimum payments due during the upcoming years are as follows:

2014	2015	2016
$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 a measurement of the risks as at December 31, 2013.

Credit risk

Financial instruments that potentially subject the Company to credit risk consist primarily of cash and cash equivalents, receivables and investments. The Company's cash and cash equivalents are held with or are issued by first-class financial institutions. The majority of receivables are amounts owed by governments and partners. Therefore, Management considers the risk of non-performance on these instruments to be 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, selling interests in some of its oil assets and by obtaining short-term loans. 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

The Company is exposed to interest rate risk on its fixed- and variable-rate financial instruments. Fixed-rate financial instruments expose the Company to fair value risk while variable-rate instruments expose it to cash flow risk.

A 1% change in the basic rate would have little impact on the fair value of the Company's investments due to their nature and would increase or decrease the net financial debt by $21,922.

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, investments, and loans and borrowings are found at this level.

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

The process followed for the determination of fair value 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 the judgments, estimates and assumptions made by Management in the preparation of its annual financial statements, see Note 4 of the Financial Statements for the year ended December 31, 2013.

Future changes in accounting policies

For a complete description of future changes in accounting policies, see Note 2 of the Financial Statements for the year ended December 31, 2013.

Capital management

For a complete description of the Company's capital management policy, see Note 18 of the Financial Statements for the year ended December 31, 2013.

Other information

a) <u>Supplemental documents</u>

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.petrolia-inc.com**.

b) Regulation 51-102 Section 5.2

Exploration expenses for the year ended December 31, 2013 are as follows:

	Geology	Geophysics	Completion and Drilling	Analysis	Fracturing	General expenses	Options	Provision	Site maintenance	Total
	$	$	$	$	$	$	$	$	$	$
Anticosti	257,553	42,080	1,215,316	105,241		169,560	56,690		220	1,846,660
Gastonguay	837					48	65			950
Gaspésia Marcel-Tremblay Edgar	5,689	5,840		1,400		4,155	5,096			22,180
Gaspé	62,919	10,960	751	15,630		120,445	6,598		110	217,413
Bourque	57,358	13,256	10,009,007	8,460	400	33,378	94,882	291,612		10,508,353
Haldimand	288,152	1,880	2,309,133	950	49,883	34,626	80,098		99,886	2,864,608
Tar Point	38		(104,227)			(1,072)	14,358		220	(90,683)
Dalhousie	620					73	876			1,569
Matapédia	38	160	1,067,913			53,546	42,345			1,164,001
	673,203	**74,176**	**14,497,893**	**131,681**	**50,283**	**414,759**	**301,008**	**291,612**	**100,436**	**16,535,051**

Exploration expenses for the period ended September 30, 2012 are as follows:

	Geology	Geophysics	Drilling	Analysis	Fracturing	General expenses	Options	Provision	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	49,782	62,433	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**	**204,772**	**132,983**	**4,492**	**145,718**	**11,361,974**

c) **Regulation 51-102 Section 5.3**

Information on shares issued, share options and warrants as at March 13, 2014:

Common shares : 70,667,372 shares 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:

- 180,000 options exercisable at a price of $0.89 per share until February 25, 2015
- 657,500 options exercisable at a price of $0.50 per share until December 8, 2015
- 75,000options 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
- 1,200,000 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
- 2,220,000 options exercisable at a price of $1.02 per share until December 10, 2017
- 150,000 options exercisable at a price of $1.14 per share until February 28, 2018
- 250,000 options exercisable at a price of $0.89 per share until August 21, 2018
- 400,000 options exercisable at a price of $0.98 per share until September 14, 2018
- 650,000 options exercisable at a price of $0.67 per share until December 5, 2018

Warrants outstanding : Each warrant entitles the bearer to purchase one common share of the Company at the indicated exercise price until the expiry date:

- 242,958 warrants exercisable at a price of $1.42 per share until May 14, 2014
- 48,840 warrants exercisable at a price of $1.15 per share until September 25, 2014
- 5,545,776 warrants exercisable at a price of $1.78 per share until May 15, 2015
- 100,000 warrants exercisable at a price of $0.70 per share until July 11, 2015
- 714,286 warrants exercisable at a price of $1.00 per share until July 11, 2016

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 and audited by the Company's auditors. The financial statements include certain amounts that are based on the use of 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.

Quebec City, March 13, 2014

On behalf of the Board

(signed) Myron Tétreault

Myron Tétreault

Interim President

(signed) Karl McLellan

Karl McLellan

Chief Financial Officer and Corporate Secretary

INDEPENDENT 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 December 31, 2013 and September 30, 2012 and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the 15 months ended December 31, 2013 and 12 months ended September 30, 2012, 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, whether 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 audits 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 December 31, 2013 and September 30, 2012 and its financial performance and cash flows for the 15 months ended December 31, 2013 and 12 months ended September 30, 2012, 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 upon the Company's ability to continue as a going concern in the long term, without, however, compromising its short-term existence.

(signed) Mallette L.L.P. [1]
Partnership of Chartered Professional Accountants

Rimouski, Canada
March 13, 2014

[1] CPA auditor, CA, public accountancy permit No A104110.

STATEMENTS OF FINANCIAL POSITION

(in Canadian dollars)

	As at December 31, 2013 $	As at September 30, 2012 $
ASSETS		
Current		
Cash and cash equivalents (Note 5)	4,082,904	10,242,262
Cash and cash equivalents held for exploration (Note 5)	904,737	-
Receivables (Note 6)	4,633,279	5,086,302
Prepaid expenses	105,287	113,074
Inventories	-	51,470
Investments cashable during the next fiscal year (Note 7)	930,000	1,080,000
	10,656,207	16,573,108
Non-current		
Deposit on exploration costs	-	2,100,000
Property, plant and equipment (Note 8)	735,918	1,031,975
Exploration and evaluation assets (Note 9)	41,687,247	32,695,097
	42,423,165	35,827,072
	53,079,372	52,400,180
LIABILITIES		
Current		
Suppliers and other creditors (Note 10)	1,735,527	3,027,306
Loans and borrowings (Note 11)	2,886,528	-
Liability related to flow-through shares	212,416	-
Provision for site restoration (Note 12)	-	98,000
	4,834,471	3,125,306
Non-current		
Deferred lease incentives	66,218	100,469
Provision for site restoration (Note 12)	718,180	287,938
Deferred tax liabilities (Note 23)	357,762	1,224,584
	1,142,160	1,612,991
	5,976,631	4,738,297
EQUITY		
Share capital (Note 13)	54,546,758	51,378,040
Contributed surplus	4,824,472	3,026,923
Retained earnings	(12,268,489)	(6,743,080)
	47,102,741	47,661,883
	53,079,372	52,400,180

Going concern (Note 1)

Agreements, commitments and contingencies (Notes 9, 14, 20 and 21)

The accompanying notes are an integral part of these financial statements.

On behalf of the Board

(signed) Myron Tétreault

Director

On behalf of the Board

(signed) Charles Boulanger

Director

STATEMENTS OF COMPREHENSIVE INCOME

(in Canadian dollars)

For the years ended	December 31, 2013 (15 months) $	September 30, 2012 (12 months) $
INCOME		
Rental income	15,048	12,156
Project management	67,374	22,340
	82,422	34,496
EXPENSES		
Administrative expenses (Schedule A)	5,872,573	3,622,835
Operating expenses (Schedule B)	-	-
Financial income and expenses (Schedule C)	(31,231)	(209,667)
Write-off of exploration and evaluation assets	891,317	494,486
Loss on disposal of property, plant and equipment	3,576	-
	6,736,235	3,907,654
LOSS BEFORE TAXES	(6,653,813)	(3,873,158)
Recovery of deferred taxes (Note 23)	(1,128,404)	(854,125)
NET LOSS AND COMPREHENSIVE INCOME FOR THE PERIOD	(5,525,409)	(3,019,033)
BASIC NET LOSS PER SHARE (Note 16)	(0.081)	(0.051)
DILUTED NET LOSS PER SHARE (Note 16)	(0.081)	(0.051)

STATEMENTS OF CHANGES IN EQUITY

(in Canadian dollars)

	Share capital	Contributed surplus	Retained earnings	Total equity
	$	$	$	$
Balance as at September 30, 2011	35,432,271	2,395,117	(3,724,047)	34,103,341
Shares issued	15,750,004	-	-	15,750,004
Warrants exercised	344,136	-	-	344,136
Exercise of 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 income taxes related to share issuance costs	160,421	-	-	160,421
Net loss 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
Shares issued	2,974,107	-	-	2,974,107
Exercise of options	478,600	(194,200)	-	284,400
Share-based payments	-	1,986,025	-	1,986,025
Broker warrants	-	5,724	-	5,724
Share issuance costs	(388,494)	-	-	(388,494)
Deferred income taxes related to share issuance costs	104,505	-	-	104,505
Net loss and comprehensive income	-	-	(5,525,409)	(5,525,409)
Balance as at December 31, 2013	54,546,758	4,824,472	(12,268,489)	47,102,741

STATEMENTS OF CASH FLOWS

(in Canadian dollars)

For the years ended	December 31, 2013 (15 months) $	September 30, 2012 (12 months) $
OPERATING ACTIVITIES		
Net loss	(5,525,409)	(3,019,033)
Items not affecting cash:		
Depreciation of property, plant and equipment	129,447	117,125
Amortization of financing costs	10,219	-
Loss on disposal of property, plant and equipment	3,576	-
Recovery of deferred taxes	(1,128,404)	(854,125)
Share-based payments	1,685,017	506,709
Depreciation of deferred rental incentives	(34,251)	(11,804)
Write-off of exploration and evaluation assets	891,317	494,486
Accretion expense	40,630	12,268
	(3,927,858)	(2,754,374)
Net change in non-cash working capital items:		
Receivables	958,343	(1,002,632)
Prepaid expenses	7,787	28,084
Inventories	51,470	10,149
Trade and other payables	(117,422)	446,690
	900,178	(517,709)
	(3,027,680)	(3,272,083)
FINANCING ACTIVITIES		
Issuance of shares	3,837,010	16,372,990
Share issuance costs	(382,770)	(595,528)
Additional financing, net of financing costs of $122,623 (2012 – $0)	2,876,309	-
Repayment of bank debt	-	(2,243,310)
	6,330,549	13,534,152
INVESTING ACTIVITIES		
Acquisition of investments	-	(150,000)
Cashing of investments	150,000	-
Acquisition of property, plant and equipment	(80,522)	(380,438)
Proceeds from disposal of property, plant and equipment	1,000	-
Acquisition of petroleum and gas properties	(351,147)	(1,747,414)
Deposit on exploration costs	-	(2,100,000)
Increase in deferred exploration expenses net of deductions	(8,276,821)	(3,792,989)
	(8,557,490)	(8,170,841)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,254,621)	2,091,228
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10,242,262	8,151,034
CASH AND CASH EQUIVALENTS, END OF PERIOD (Note 5)	4,987,641	10,242,262
CASH AND CASH EQUIVALENTS ARE MADE UP OF THE FOLLOWING:		
Cash (bank overdraft)	158,310	(1,872,572)
Guaranteed investment certificates (redeemable at any time)	4,829,331	4,254,331
Money market fund	-	7,860,503
	4,987,641	10,242,262

Additional cash flow information (Note 22)

1. INCORPORATING ACTS, ACTIVITIES, YEAR-END, GOING CONCERN AND APPROVAL

Incorporating acts and types of activities

The Company, incorporated under part 1A of the Quebec *Companies Act* and subject to the provisions of the Quebec *Business Corporations Act*, serves as a petroleum and gas exploration company. It has been listed on the TSX Venture Exchange since February 16, 2005 under the symbol PEA. Its head office is located at 305 Charest Blvd. East, 10th Floor, Quebec City, Quebec G1K 3H3.

Change of year-end

The Company has changed the date of its year-end. The year-end of most public oil and gas companies is December 31. Pétrolia wanted to align its year-end with that of its industry counterparts so as to make it easier for financial analysts to track its stock price. The 2013 year therefore comprises 15 months, compared to 12 months for 2012. The amounts presented in the financial statements are therefore not completely comparable.

Going concern

The Company has not yet established whether its properties and exploration costs include economically feasible reserves. Recovering oil and gas property and exploration costs hinges on the existence of economically feasible reserves, the Company's ability 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 were the going concern assumption not appropriate. These adjustments could be material.

The Company recorded comprehensive income of ($5,525,409) for the year ended December 31, 2013, and had retained earnings of ($12,268,489) at December 31, 2013. 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 administrative costs. As at December 31, 2013, the Company had working capital of $5,821,736, including cash and cash equivalents of $4,987,641. Management does not believe it will have sufficient cash to meet its obligations and projected expenses until December 31, 2014. Any 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 as assets might be less than amounts reflected in these financial statements.

Date of approval

The financial statements for the year ended December 31, 2013 (including the comparative financial statements) were approved for issue by the Board of Directors on March 13, 2014.

2. 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 these standards. The amendments apply to annual periods beginning on or after January 1, 2013. The Company is currently evaluating 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 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 U.S. GAAP now impose the same disclosure requirements. These new obligations are intended 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. The Company is currently evaluating the impact of these standards on its financial statements.

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, but this date was removed in 2013.

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 is currently evaluating the impact of these standards on its financial statements.

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. The Company is currently evaluating the impact of these standards on its financial statements.

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. The Company is currently evaluating the impact of these standards on its financial statements.

IFRS 13 – Fair Value Measurement
Issued in May 2011, this standard establishes a single source of guidance for fair value measurements under IFRS. It defines fair value, provides guidance on measurement and introduces certain disclosure requirements in this regard. IFRS 13 will apply to annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of these standards on its financial statements.

IAS 36 – Impairment of Assets
In May 2013, the IASB issued an amendment to IAS 36 *Impairment of Assets* to require disclosures about the recoverable amount of impaired assets in cases where the recoverable amount is based on fair value less cost of disposal. This amendment also clarifies the disclosure required on this recoverable amount following application of IFRS 13 *Fair Value Measurement*. The amendment applies to annual periods beginning on or after January 1, 2014. The Company is currently evaluating the impact of this amendment on its financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Measurement basis

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

3.2 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.

3.3 Inventories

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

3.4 Financial instruments

The Company classifies its financial instruments by categories based on their nature and specifications. 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 effective 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. Directly attributable transaction costs and changes in fair value are 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 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 value as follows: the carrying value 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 value 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 reversal date of the financial asset's impairment if the impairment had not been recognized. 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 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 value 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 they are recoverable within 12 months of the end of the review period; otherwise, they are classified as “Non-current liabilities.” This item includes trade and other payables, and loans.

3.5 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 holders of ordinary shares 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. 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 December 31, 2013 and 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 warrants.

3.6 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, easily convertible into known amounts of cash and subject to an insignificant risk of change in value.

3.7 Exploration and evaluation assets

Exploration and evaluation assets include the cost of acquiring petroleum rights and expenses related to the exploration and evaluation of petroleum 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 the 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.

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.

3.8 Property, plant and equipment

Property, plant and equipment 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 value of property, plant and equipment ceases when the asset is in the location and in the necessary condition allowing it to be operated in the manner intended by Management. These assets are depreciated over their expected useful lives according to the following methods and periods or annual rates:

	Method	Rate and Period
Leasehold improvements	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%
Field offices	Declining balance	20%
Sites	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 property, plant and equipment component 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 property, plant and equipment items related to exploration activities where the amortization expense is included in the carrying value 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 value of a plant, property and equipment item 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 a plant, property and equipment item 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.”

3.9 Provision for site 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. 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.

3.10 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.

3.11 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 value may not be recoverable. In addition, if the technical feasibility and commercial viability of the extraction of a petroleum resource can be demonstrated, exploration and evaluation assets related to the corresponding petroleum and gas property must undergo an impairment test before being transferred to property, plant and equipment.

An impairment loss is recognized for the amount by which the carrying value of an asset or a cash-generating unit exceeds 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 value but must not exceed the carrying value that would have been determined, after impairment, if no loss of value had been recorded.

3.12 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.

3.13 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.

3.14 Employee benefits

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

3.15 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 value 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 and liabilities 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 are recognized in earnings as an increase of deferred tax and a deferred tax liability is recognized for the temporary difference between the carrying value 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.

3.16 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 share 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. The issuance of flow-through shares is accounted in a similar manner as the issuance of a compound financial instrument. The liability component represents the obligation to revert the tax benefit to the investors. Proceeds from the issuance of shares by flow-through private placements are allocated between flow-through shares issued and a 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 in the proceeds is allocated to the liability. The liability component is reversed in income as recovery of deferred income taxes when the eligible expenses 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.

3.17 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 broker warrants.

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 as at the grant date.

Share-based payments (except broker warrants) 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.

When a share option or broker warrant is exercised, 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.

3.18 Recognition of financing costs related to loan

Financing costs are amortized over the term of the loan.

3.19 Recognition of lease incentives

When the Company receives a lease incentive, the amount is spread out over the term of the lease, without taking renewal clauses into account.

3.20 Segment reporting

As required by IFRS 8 *Operating Segments*, the Company presents and discloses segment information based on information that is regularly reviewed by the president 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.

4. JUDGMENTS, ESTIMATES 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 the estimates, assumptions and judgments made by Management, and will seldom equal the estimated 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

Judgment is required to determine impairment loss or reversal indicators, as well as to establish the recoverable amount in the event an impairment test is necessary. If there is an indication of an impairment loss or reversal of an asset or a cash-generating unit, the recoverable amount is estimated and the impairment loss or reversal is recognized insofar as the carrying value of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of an asset's fair value less costs to sell and its value in use.

For each property, Management determines whether the facts and circumstances could indicate an impairment loss or reversal. The facts and circumstances that it considers include, but are not limited to the following:

(a) The period during which the Company 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) Significant exploration and evaluation expenses for mineral resources in the specific area are neither planned nor scheduled in the budget;

(c) Exploration and evaluation of petroleum resources in the specific area did not lead to the discovery of commercially viable volumes of petroleum resources and the Company decided to cease activities in the specific area;

(d) Sufficient data exist to indicate that, although development in the specific area is likely to continue, the accounting amount of the exploration and evaluation assets will probably not be entirely recovered following successful development or a sale.

When there is indication of an impairment loss or reversal, Management must evaluate the recoverable amount of the asset or the cash-generating unit; to do so, it must make assumptions related to future events and circumstances. These assumptions are based on the Company's exploration and evaluation program, which specifically considers whether the results of exploration work justify additional investments, the Company's interests in petroleum and gas rights have been confirmed, the Company has the capacity to obtain the necessary financing to develop and produce resources in a profitable manner, and whether the disposal of properties will be made at an amount greater than the carrying value.

Actual results may differ and give rise to material adjustments in the Company’s assets during the following fiscal year.

Management has determined that there is no indication of impairment or reversal of impairment, except for the Dalhousie property and exploration expenses that resulted in a write-down of $34,954 and $856,363 for a total loss of $891,317, recorded in comprehensive income.

Deferred tax

Judgement is required to evaluate the likelihood of a future taxable benefit. A deferred tax asset is recognized to the extent that it is likely that taxable profits will be available against which the deductible temporary differences and the deferred 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. More information on the Company as a going concern is presented 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 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 regarding the technical feasibility and commercial viability of exploration and evaluation assets involves making a certain number of assumptions, such as the estimated reserves, forecast commodity price, expected production volumes and discount rates, which are all subject to material changes in the future. The Company has determined that no property has yet reached the technical feasibility and commercial viability stage.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following items:

	As at December 31, 2013 $	As at September 30, 2012 $
Cash (bank overdraft)	158,310	(1,872,572)
Guaranteed investment certificates	4,829,331	4,254,331
Money market fund	-	7,860,503
	4,987,641	10,242,262
Less: cash and cash equivalents held for exploration (1)	904,737	-
Cash and cash equivalents	4,082,904	10,242,262

(1) Cash held for exploration represents proceeds from financing not yet incurred related to flow-through shares. According to restrictions imposed under financing arrangements, the Company must allocate these funds to the exploration of oil and natural gas properties.

As at December 31, 2013, cash and cash equivalents included guaranteed investment certificates with interest between 1.04% and 1.30% (1.75% and 2.4% as at September 30, 2012) maturing between May 8, 2014 and December 22, 2014. These instruments are cashable at any time without penalty.

6. RECEIVABLES

	As at December 31, 2013 $	As at September 30, 2012 $
Partners	575,964	510,256
Input tax credits	154,582	1,056,880
Tax credits receivable	3,848,569	3,408,957
Interest receivable	15,755	94,949
Other	38,409	15,260
	4,633,279	5,086,302

On December 31, 2013, the Company recorded a resource tax credit of $3,848,569 (September 30, 2012 - $2,905,840).

Tax credits receivable relate to claims that have not yet been examined by tax authorities.

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

7. INVESTMENTS

	As at December 31, 2013 $	As at September 30, 2012 $
Guaranteed investment certificate, 2.40%, cashable at any time and maturing December 2012	-	1,080,000
Guaranteed investment certificate, 1.30%, cashable at any time and maturing December 2014	930,000	-
	930,000	1,080,000
Investments cashable during the next fiscal year	930,000	1,080,000
	-	-

8. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements $	IT, office and field equipment $	Rolling stock $	Reservoirs $	Field offices $	Sites $	Total $
Gross book value							
Balance as at September 30, 2012	577,484	294,444	244,487	248,409	186,107	75,434	1,626,365
Additions	-	6,050	-	74,472	-	-	80,522
Disposal	-	-	(46,935)	-	-	-	(46,935)
Balance as at December 31, 2013	577,484	300,494	197,552	322,881	186,107	75,434	1,659,952
Accumulated depreciation							
Balance as at September 30, 2012	224,947	139,817	182,832	37, 489	9,305	-	594,390
Disposal	-	-	(42,359)	-	-	-	(42,359)
Depreciation	197,540	43,813	20,196	68,021	42,433	-	372,003
Balance as at December 31, 2013	422,487	183,630	160,669	105,510	51,738	-	924,034
Net book value as at December 31, 2013	154,997	116,864	36,883	217,371	134,369	75,434	735,918

	Leasehold improvements $	IT, office and field equipment $	Rolling stock $	Reservoirs $	Field offices $	Sites $	Total $
Gross book value							
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
Disposal	-	-	-	-	-	-	-
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
Disposal	-	-	-	-	-	-	-
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
Net book value at September 30, 2012	352,537	154,627	61,655	210,920	176,802	75,434	1,031,975

9. EXPLORATION AND EVALUATION ASSETS

Petroleum and gas properties

	September 30, 2012 $	Write-offs $	Additions $	December 31, 2013 $
Quebec				
Anticosti [1]	340,875	-	8,044	348,919
Gastonguay	690,300	-	25,901	716,201
Gaspésia – Edgar – Marcel-Tremblay	426,950	-	22,018	448,968
Gaspé [1]	3,290,457	-	126,467	3,416,924
Matapédia	-	-	168,717	168,717
New Brunswick				
Dalhousie	139,526	34,954	(104,572)	-
Petroleum and gas property totals	4,888,108	34,954	246,575	5,099,729

Exploration expenses

	September 30, 2012 $	Write-offs $	Additions $	December 31, 2013 $
Quebec				
Anticosti	7,466,997	-	1,846,660	9,313,657
Gastonguay	75,037	-	950	75,987
Gaspésia – Edgar – Marcel-Tremblay	3,770,234	-	22,180	3,792,414
Gaspé	2,662,493	-	217,413	2,879,906
Bourque project	11,168,542	-	10,508,353	21,676,895
Haldimand project	13,343,595	-	2,864,608	16,208,203
Tar Point No. 1 project	5,284,223	-	(90,683)	5,193,540
Matapédia	-	-	1,164,001	1,164,001
New Brunswick				
Dalhousie	861,716	863,285	1,569	-
	44,632,837	863,285	16,535,051	60,304,605
Less:				
Exploration subsidies and partner contributions:				
Anticosti	3,012,402	-	866,280	3,878,682
Gastonguay	18,909	-	100	19,009
Gaspésia – Edgar – Marcel-Tremblay	423,091	-	5,572	428,663
Gaspé	644,933	-	49,028	693,961
Bourque project	5,684,276	-	3,133,695	8,817,971
Haldimand project	5,699,488	-	2,180,880	7,880,368
Tar Point No. 1 project	1,089,615	-	(38,054)	1,051,561
Matapédia	-	-	651,056	651,056
Dalhousie	6,922	6,922	-	-
	16,579,636	6,922	6,848,557	23,421,271
Income from evaluation of oil reserves:				
Gaspé				
Haldimand project	246,212	-	49,602	295,814
Total exploration expenses	27,806,989	856,363	9,636,892	36,587,518

The Company wrote off its Dalhousie property, considering that no exploration work was done recently. The Company choose to concentrate its effort on the others properties.

Summary as at December 31, 2013	September 30, 2012 $	Write-offs $	Additions $	December 31, 2013 $
Properties	4,888,108	34,954	246,575	5,099,729
Exploration expenses	27,806,989	856,363	9,636,892	36,587,518
Exploration and evaluation assets	32,695,097	891,317	9,883,467	41,687,247

Oil and gas properties

	September 30, 2011 $	Write-offs $	Additions $	September 30, 2012 $
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
Oil and gas property totals	3,148,005	(7,311)	1,747,414	4,888,108

Exploration expenses

	September 30, 2011 $	Write-offs $	Additions $	September 30, 2012 $
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 No. 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 No. 1 project	796,565	-	293,050	1,089,615
Dalhousie	6,922	-	-	6,922
	10,791621	-	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	September 30, 2011 $	Write-offs $	Additions $	September 30, 2012 $
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

(1) Properties with the reference (1) are subject to royalties should they become productive. To date, the Company has satisfied all required obligations and lists only its future or potential obligations and special transactions of the year below.

Gaspé property

In May 2008, Pétrolia acquired a 100% interest in a 6,043-km^2 surface area of these properties (excluding the Haldimand property), subject to a royalty of 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-km^2 territory, with the exception of a 9-km^2 zone in which it holds a 64% interest (Haldimand property). On December 20, 2010, the Company signed definitive agreements for the sale of 50% of its 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. Under the initial contract, Québénergie paid a sum of $6,690,000 in cash and must pay $8,500,000 for exploration work to be carried out by Pétrolia. As at December, 2013, $ 2,504,851 for exploration work must be spend to respect the initial contract.

Haldimand project

On December 20, 2011, Pétrolia and Québénergie paid $3.1 million to acquire Junex's 36% interest in this deposit. The agreement releases Junex from the production penalties to which it was exposed by failing to participate in recent work on the properties. Following this transaction, Pétrolia and Québénergie now own an equal share in the deposit and surrounding properties.

Bourque project

In May 2012, Pétrolia completed a private placement totalling $15.75 million, with most of the funds used for the drilling of two wells on the Bourque property. The Company is currently developing a work program for the purpose of identifying the production characteristics of the Forillon Formation.

Anticosti property

The Company acquired all of Hydro-Québec's rights on Anticosti Island in return for a priority royalty on future oil production. Under this agreement, Pétrolia shares a 25% interest with Corridor Resources Inc. in six licences and 50% in 29 exploration licences on the island and acts as an operator for most of them. In June 2010, the Company participated in the drilling of three exploration wells and extracted a core sample to evaluate the Macasty Formation's potential as a shale gas reservoir. Once its obtains the results of the core sample analysis, the Company plans to undertake development work in order to better estimate the oil potential of Anticosti Island. A priority royalty was granted to Hydro-Québec on the possible oil production. The fee is equivalent to 1% for the first 3 million barrels, 2% on the portion between 3 million and 10 million barrels, and 3% on everything above 10 million barrels. The Company also granted Hydro-Quebec a $10 million mortgage as collateral for payment of the priority fee. The agreement is available for consultation on Pétrolia's website at: www.petrolia-inc.com.

Matapédia property

On July 19, 2013, the Company signed a partnership agreement with Saint-Aubin Énergie S.A.S., a subsidiary of Maurel & Prom and MPI, and proceeded with the joint acquisition of 13 licences in the Gaspé Peninsula.

10. TRADE AND OTHER PAYABLES

	As at December 31, 2013 $	As at September 30, 2012 $
Payables and accrued liabilities	1,151,950	2,449,192
Salaries, vacation pay and directors' fees	351,077	270,614
Security deposit	232,500	307,500
	1,735,527	3,027,306

11. LOANS AND BORROWINGS

	As at December 31, 2013 $	As at September 30, 2012 $
Bank loan, in the amount of $2,998,932, bearing interest at Caisse Centrale Desjardins' prime rate plus 1%. The bank loan is secured by a mortgage of $2,998,932 with a first charge on refundable tax credits and future tax credits as well as with an 80% surety from Investissement Québec. The principal must be repaid during the next fiscal year.	2,998,932	-
Less:		
Financing costs	(112,404)	-
	2,886,528	-

12. PROVISION FOR SITE RESTORATION

Management calculates the total provisions for future site restoration based on the estimated cost to abandon and reclaim its net ownership interest in all wells and facilities and the estimated timing of the costs to be incurred in future periods.

As at December 31, 2013, the future estimated total required to settle obligations related to site restoration, indexed at 3.5%, stood at $718,180 (September 30, 2012 – $385,938). The total future amount was discounted using the weighted average rate of 5.25%, according to a payment schedule ranging from 1 to 30 years. The total undiscounted amount of the estimated cash flow required to settle this obligation is $827,500.
(September 30, 2012 – $452,500).

The following table presents the reconciliation of the provision for site restoration:

	For the year ended December 31, 2013 (15 months) $	For the year ended September 30, 2012 (12 months) $
Balance, beginning of period	385,938	369,178
Liabilities incurred	291,612	41,992
Accretion expense	40,630	12,268
Amount used	-	(37,500)
Balance, end of period	718,180	385,938
Portion of liability to be settled during the following fiscal year	-	98,000
	718,180	287,938

13. SHARE CAPITAL

Authorized

Unlimited number of common, participating, voting shares without par value.

Issued:

	Fiscal year ended December 31, 2013 (15 months)		Fiscal year ended September 30, 2012 (12 months)	
	Number of shares	Amount $	Number of shares	Amount $
Balance, beginning of period	66,585,750	51,378,040	54,579,477	35,432,271
Shares issued:				
Shares issued	3,606,622	2,974,107	11,091,552	15,750,004
Warrants exercised	-	-	264,721	344,136
Exercise of share options	460,000	478,600	650,000	460,208
Deferred taxes	-	104,505	-	160,421
Share issuance costs	-	(388,494)	-	(769,000)
Balance, end of period	70,652,372	54,546,758	66,585,750	51,378,040

Warrants

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

	Fiscal year ended December 31, 2013 (15 months)		**Fiscal year ended September 30, 2012 (12 months)**	
	Number of warrants	Weighted average exercise price $	Number of warrants	Weighted average exercise price $
Balance, beginning of period	5,788,734	1.76	264,721	1.30
Issued	896,796	0.98	5,788,734	1.76
Exercised	-	-	(264,721)	(1.30)
Expired	(33,670)	-	-	-
Balance, end of period	6,651,860	1.66	5,788,734	1.76

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

	As at December 31, 2013		**As at September 30, 2012**	
Expiry date	Number of warrants	Exercise price $	Number of warrants	Exercise price $
May 14, 2014	242,958	1.42	242,958	1.42
September 25, 2014	48,840	1.15	-	-
July 10, 2015	100,000	0.70	-	-
May 15, 2015	5,545,776	1.78	5,545,776	1.78
July 10, 2016	714,286	1.00	-	-
	6,651,860	1.66	5,788,734	1.76

14. LEASES

	Minimum lease payments due		
	Less than 1 year	**1 to 5 years**	**Total**
	$	$	$
December 31, 2013	307,444	391,851	699,295
September 30, 2012	289,870	737,602	1,027,472

The Company leases its offices and a house under leases expiring in 2014 and 2016.

Lease payments recognized as an expense during the reporting period amount to $412,203 ($284,289 in 2012) of which $198,914 ($148,474 in 2012) were charged to exploration and evaluation assets. This amount represents minimum lease payments. A sublease payment of $19,500 (2012– $0) was made. An amount of $15,048 ($12,156 in 2012) was received as a sublease payment.

The Company's rental contracts do not contain any contingent rent clauses, restrictions on dividends, additional debt or 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.

15. EMPLOYEE REMUNERATION AND SHARE-BASED PAYMENTS

Employee benefits expense

Expenses recognized for employee benefits are analyzed below:

	For the year ended	
	December 31, 2013 (15 months)	**September 30, 2012 (12 months)**
	$	**$**
Salaries and benefits	3,149,305	2,223,643
Share-based payments	1,986,025	639,692
	5,135,330	2,863,335
Less: amounts capitalized in exploration and evaluation assets	1,685,065	1,276,431
Employee benefits expense	3,450,265	1,586,904

Share-based payments

The Company has a share option plan that allows it to grant a maximum of 10% of the number of shares outstanding to its directors, officers, key employees and suppliers on a continuous basis. The exercise price of each option equals the market price or discounted market price of the underlying share on the day prior to the grant of the option. All options must be exercised no later than five years after the date of the grant. The options granted to directors vest immediately and over a period of three years for other participants.

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

Share options and weighted average prices are as follows for the reporting periods presented:

	Fiscal year ended December 31, 2013 (15 months)		**Fiscal year ended September 30, 2012 (12 months)**	
	Number of options	Weighted average exercise price **$**	Number of options	Weighted average exercise price **$**
Outstanding at the beginning of period	3,706,000	1.16	3,276,250	0.84
Granted	3,670,000	0.95	1,341,000	1.52
Exercised	(460,000)	0.62	(650,000)	0.43
Expired	(483,500)	1.22	(261,250)	0.82
Outstanding at end of period	6,432,500	1.07	3,706,000	1.16
Exercisable	4,561,250	1.09	2,221,500	1.09

The weighted average price of the share on the exercise date was $0.95 on December 31, 2013 ($1.43 on September 30, 2012).

The following table reflects share options issued and outstanding at December 31, 2013:

Options outstanding

Number of options	Exercise price	Time to maturity	Expiration date
	$	years	
60,000	0.74	0.4	May 21, 2014
180,000	0.89	1.2	February 25, 2015
672,500	0.50	1.9	December 8, 2015
75,000	1.31	2.2	February 25, 2016
500,000	1.69	2.4	May 18, 2016
1,200,000	1.52	2.9	December 4, 2016
75,000	1.51	3.1	February 22, 2017
2,200,000	1.02	3.9	December 10, 2017
150,000	1.14	4.2	February 28, 2018
250,000	0.89	4.6	August 21, 2018
400,000	0.98	4.7	September 14, 2018
650,000	0.67	4.9	December 5, 2018

The following table reflects share options issued and outstanding at September 30, 2012:

Options outstanding

Number of options	Exercise price	Time to maturity	Expiration date
	$	years	
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 weighted fair value of share options and broker warrants granted during 2013 was $0.49 per option ($0.71 for 2012).

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

	December 2013	**September 2013**	**September 2013**	**August 2013**	**July 2013**	**March 2013**
Exercise price	$0.67	$1.15	$0.98	$0.89	0.70	$1.14
Risk-free interest rate	1.83%	0.98%	2.12%	2.05%	1.15%	1.18%
Average expected volatility	87%	8%	92%	93%	5%	102%
Average expected life (years)	1–5	1	5	5	2	5
Expected dividend yield	Nil	Nil	Nil	Nil	Nil	Nil

	December 2012	December 2012	May 2012	Februa y 2012	December 2011
Exercise price	$1.20	$1.02	$1.42	$1.51	$1.52
Risk-free interest rate	1%	1.51%	0.86%	3%	3%
Average expected volatility	6%	102%	95%	91%	91%
Average expected life (years)	1	1–5	2	5	5
Expected dividend yield	Nil	Nil	Nil	Nil	Nil

The underlying expected volatility was determined by reference to historical data of the Company's shares over a period of five years since the grant date.

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, the share-based compensation was allocated as follows:

	2013 $	2012 $
Statement of comprehensive income	1,685,017	506,709
Exploration expenses	301,008	132,983
Share issuance costs	5,724	173,472
Total	1,991,749	813,164

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.

16. EARNINGS PER SHARE

Basic earnings per share have been calculated by dividing net income for the fiscal year by the weighted average number of ordinary shares outstanding during the fiscal year. In calculating diluted earnings per share for the years ended December 31, 2013 and September 30, 2012, 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 have been calculated using net loss as the numerator, i.e. no adjustment to income was necessary.

	For the year ended December 31, 2013 (15 months)	September 30, 2012 (12 months)
Net loss	($5,525,409)	($3,019,033)
Basic weighted average number of shares	68,401,114	59,678,089
Dilutive effect of warrants and options	-	-
Weighted average number of diluted shares	68,401,114	59,678,089
Basic earnings per share	($0.081)	($0.051)
Diluted earnings per share	($0.081)	($0.051)

17. 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 December 31, 2013 (15 months) $	September 30, 2012 (12 months) $
Short-term employee benefits:		
Salaries and benefits	1,053,907	685,882
Termination benefit	333,333	-
Attendance fees	134,716	126,817
Total short-term benefits	1,521,956	812,699
Fees	112,500	-
Share-based payments	1,656,356	473,206
Total remuneration	3,290,812	1,285,905

During the year ended December 31, 2013, key management exercised 460,000 options (547,500 - 2012) granted under the share-based compensation plan. In addition, an amount of $120,000 (2012 - $0) was granted to two officers under the loan program for the exercise of share options. These loans bear interest at the Bank of Canada overnight rate. The loan amount will be offset by the termination benefit. The net benefit recorded in liabilities is $213,333.

Related parties

The Company entered into transactions:

	For the year ended	
	December 31, 2013	**September 30, 2012**
With two companies whose main officer (holding a minority interest) also serves on Pétrolia's Board:	**$**	**$**
Statement of financial position:		
Exploration and evaluation assets	17,142	5,300
Statement of comprehensive income:		
Other expenses	11,514	9,110
With a director acting as a consultant for the Company:		
Statement of financial position:		
Exploration and evaluation assets	-	2,063
With a company in which a director is a majority shareholder:		
Statement of comprehensive income:		
Other expenses	10,000	-
With a company in which a director is a minority shareholder:		
Statement of financial position:		
Exploration and evaluation assets	-	9,500
With a close relative of a member of management, who provided services to the Company:		
Statement of financial position:		
Property, plant and equipment	-	10,685
Statement of comprehensive income:		
Office maintenance	1,814	11,605

Accounts receivable from a company whose main officer has a minority interest in and is also a director of Pétrolia is $11,959 at December 31, 2013 (September 30, 2012 - $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.

18. CAPITAL MANAGEMENT

The Company's capital management objectives are to ensure the Company's ability to pursue its exploration activities. Capital consists of share capital. 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 during the period ended December 31, 2013.

The Company is subject to the following externally imposed capital requirements:

Maximum debt-to-net-worth ratio of 1:1.
Minimum working capital ratio of 1:1.

The Company must also comply with the requirement concerning flow-through investments, i.e. the funds must be used solely for exploration activities.

At December 31, 2013, the Company is meeting all of its financial commitments.

19. RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk management policy

The Company's financial assets and liabilities expose it to various risks. The following analysis provides a measurement of the risks as at December 31, 2013, 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, as well as investments. 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 and partners. Therefore, Management considers the risk of non-performance on these instruments to be 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 petroleum assets and through short-term loans. 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.

a) Interest rate risk

The Company is exposed to interest rate risk on its fixed- and variable-rate financial instruments. Fixed-rate financial instruments expose the Company to fair value risk while variable-rate instruments expose it to cash-flow risk.

A 1% increase or decrease in the basic rate would have little impact on the value of the Company's investments given their nature and would lead to an increase or decrease of $21,922 in net financing costs.

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, investments, and loans and borrowings 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.

20. COMMITMENTS

Under the terms of exploration licences granted by the Ministère des Ressources naturelles et de la Faune du Québec, the Company has committed to pay fees in the amount of $1,114,623 by 2016. The minimum payments due during the upcoming years are as follows:

2014	2015	2016
$140,283	$487,170	$487,170

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 December 31, 2013, and excluding work that will be performed by 2017 (licence renewal date), the minimum work requirements are $667,041 in 2015, $918,396 in 2016 and $1,969,139 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 six companies for the rental of offices and a house until 2016. The balance of the commitments under these leases, excluding joint charges, is $699,295.

The minimum payments due during the upcoming years are as follows:

2014	2015	2016
$307,444	$276,600	$115,251

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 beginning in 2012. A portion of these costs could potentially be assumed by a partner.

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

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

21. CONTINGENCIES

Financing

The Company is financed in part by the issue of flow-through shares. 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 the tax authorities would have a negative tax impact for investors. Exploration work commitments that are not respected are subject to a combined tax rate of 26.9% (Canada and Quebec). During the reporting period, the Company received an amount of $2,552,610 (2012 - $0) following flow-through placements for which it renounced the tax deductions. These eligible expenses will be incurred by December 31, 2014. At December 31, 2013, the remaining eligible expenses to be incurred stood at $904,737 (2012 - $0).

Environment and letters of guarantee

The Company's operations are subject to environmental protection legislation. Environmental consequences are difficult to predict, whether in terms of their outcomes, dates or impact. Currently, to the best of management's knowledge, the Company is operating in compliance with current legislation. Letters of guarantee in the amount of $930,000 (2012 - $1,080,000) were issued in favour of the Ministère des Ressources naturelles to guarantee the work to shut down certain sites.

These letters are secured by guaranteed investment certificates in an equivalent amount (Note 7).

22. SUPPLEMENTAL CASH FLOW INFORMATION

Items not affecting cash and cash equivalents

	For the year ended	
	December 31, 2013 (15 months) $	September 30, 2012 (12 months) $
Receivables related to exploration and evaluation assets	(505,320)	533,701
Deferred tax related to share issuance costs	-	160,421
Payables related to exploration and evaluation assets	(1,174,357)	930,645
Payables related to property, plant and equipment	-	(13,421)
Accrued liabilities related to the write-off of a property	-	(193,874)
Deposit on exploration costs	2,100,000	-
Share-based payments related to exploration and evaluation assets	301,008	132,983

Other information

Interest paid	18,645	15,505
Interest received	184,179	256,494

23. DEFERRED TAX

Significant components of tax expense

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

	For the year ended	
	December 31, 2013 (15 months) $	September 30, 2012 (12 months) $
Taxes payable	-	-
Deferred tax:		
Tax credit transferred to investors as part of flow-through financing	(366,087)	-
Origination and reversal of temporary differences	(762,317)	(854,125)
Total deferred tax recognized in net earnings	(1,128,404)	(854,125)
Share issuance costs	104,505	160,421
Total deferred tax recognized in share capital	104,505	160,421

Reconciliation of tax expense

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:

	For the year ended December 31, 2013 (15 months) $	September 30, 2012 (12 months) $
Net income before income taxes	(6,653,813)	(3,873,158)
Income tax at combined statutory rate of 26.9% (2012 – 26.9%)	(1,789,876)	(1,041,880)
Adjustments for the following items:		
Remeasurement of deferred tax assets and liabilities	651,182	140,761
Share-based payments	453,270	136,304
Other non-deductible expenses	20,126	7,450
Share issuance costs	(97,019)	(96,760)
Tax credit transferred to investors as part of flow-through placements	(366,087)	-
Deferred tax expense recognized in net earnings	(1,128,404)	(854,125)

Changes in deferred taxes recognized:

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

	September 30, 2012 $	Recognized in equity $	Recognized in net earnings $	December 31, 2013 $
Deferred losses	(2,039,893)	-	(1,271,029)	(3,310,922)
Share issuance costs	(179,670)	(104,505)	98,558	(185,617)
Measurement differences on assets and liabilities	(124,877)	-	27,105	(97,772)
Total deferred tax assets	(2,344,440)	(104,505)	(1,145,366)	(3,594, 311)
Measurement differences on assets	3,569,024	-	383,049	3,952, 073
Net total of deferred tax liabilities	1,224,584	(104,505)	(762,317)	357,762

	September 30, 2011 $	Recognized in equity $	Recognized in net earnings $	September 30, 2012 $
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
Net total of deferred tax liabilities	2,239,130	(160,421)	(854,125)	1,224,584

Tax losses

At December 31, 2013, the tax losses available to reduce deferred taxes for which tax benefits have been recognized amount to approximately $12,619,876 and $11,915,467 at the federal and provincial levels respectively. The Company will be able to use tax benefits resulting from deferred tax losses as follows:

	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	3,022,420	3,006,386
2033	4,731,428	4,712,486

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

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:

	As at December 31, 2013 $	As at September 30, 2012 $
Deferred tax assets:		
Deferred losses	(3,310,922)	(2,039,893)
Share issuance costs	(185,617)	(179,670)
Other	(97,772)	(124,877)
	(3,594,311)	(2,344,440)
Deferred tax liabilities:		
Exploration and evaluation assets	3,952, 073	3,569, 024
Net deferred tax liabilities recognized	357,762	1,224,584

24. EVENT SUBSEQUENT TO THE STATEMENT OF FINANCIAL POSITION DATE

On February 11, 2014, the Superior Court ruled in favour of Pétrolia, invalidating the municipal bylaw of the City of Gaspé. Adopted on December 22, 2012, the bylaw sought to establish a minimum distance between drilling and municipal water sources. The decision confirmed the primacy of the Quebec government's jurisdiction over natural resource and exploration regulation. On March 6, 2014, the City of Gaspé decided to appeal the decision of the Superior Court.

On February 13, 2014, the Company announced the signature of a letter of intent to form a strategic partnership to carry out major oil exploration work on Anticosti Island. The Government of Quebec, through its subsidiary Ressources Québec, and Établissements Maurel & Prom, France's second-largest oil company, is teaming up with Pétrolia and Corridor in a joint venture to demonstrate the commercial viability of hydrocarbon resources on Anticosti Island.

Pétrolia and Corridor will contribute to this new joint venture by pooling their respective oil exploration licences. For their part, Ressources Québec and Maurel & Prom will provide up to $100 million to finance the exploration work. The partners have mandated Pétrolia to execute the project.

SCHEDULES

	2013 $ (15 months)	2012 $ (12 months)
A – ADMINISTRATIVE EXPENSES		
Share-based payments	1,685,017	506,709
Salaries and benefits	1,765,248	1,080,195
Fees	112,500	-
Insurance	67,274	58,445
Maintenance and office supplies	102,568	107,828
Board of Directors fees	178,824	162,756
Information for shareholders	102,177	87,560
Office rent	181,872	124,331
Promotion and entertainment	545,300	460,040
Travel	262,698	190,839
Professional fees	685,528	721,032
Capital tax	8,748	(12,663)
Telecommunications	24,715	12,920
Depreciation of property, plant and equipment	129,446	117,125
Other expenses	20,658	5,718
	5,872,573	3,622,835
B – OPERATING EXPENSES		
Share-based payments	301,008	132,983
Salaries and benefits	1,384,057	1,143,448
Insurance	2,262	10,926
Maintenance and office supplies	59,967	37,409
Travel	37,017	24,002
Training	23,707	15,435
Office rent	198,914	150,318
Professional fees	2,240	3,469
Telecommunications	7,058	8,854
Depreciation of property, plant and equipment	242,556	149,696
Other expenses	5,170	7,154
Allocation to exploration and evaluation assets	(2,263,956)	(1,683,694)
	-	-
C – FINANCIAL INCOME AND EXPENSES		
Interest income	(104,985)	(236,680)
Accretion expense	40,630	12,268
Bank fees	6,517	6,430
Interest on debt	26,607	8,315
	(31,231)	(209,667)

Board of directors

Myron Tétreault
Chairman of the board
President of the Compensation and Governance Committee

Charles Boulanger
Lead Director
President of the Audit Committee

David McCallum

Jacques Bourgeois

André Proulx

Legal counsel

Colby, Monnet, Demers, Delage & Crevier
Me Michel Hudon, Attorney

Listed shares – transfert agent

Computershare Trust Company
of Canada, Montréal

Shares listed

TSX Venture Exchange
Symbol : PEA

Capital-actions

70 652 372 common shares issued as at December 31, 2013

Auditors

Mallette, LLP, Rimouski, Canada

The Annual Meeting of the Shareholders of Pétrolia will be held on Wednesday, May 28th 2014 at 10:00 am at the Holiday Inn Montréal Midtown (La Plaza) room Ambassadeur C, at 420, rue Sherbrooke Ouest, Montréal, Québec H3A 1B4.