ANNUAL
REPORT
2008

Quebec's leader in oil and gas exploration

Pétrolia

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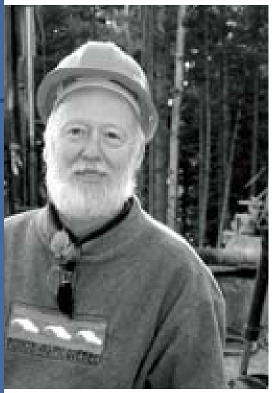
THIS YEAR HAS BEEN A CRUCIAL ACQUISITION AND PROGRESS PHASE FOR PÉTROLIA, WHICH WILL ALLOW IT TO PLAY A MAJOR ROLE IN THE ISSUES OF TOMORROW. AT THE DAWN OF 2009, THE COMPANY'S ULTIMATE GOAL IS NOW ALL THE MORE MEANINGFUL: TO BECOME A PRODUCER.

A word from the President



Pétrolia went through a crucial period in its history in 2008, and now the Company can be considered as having everything in hand to complete its projects.

This past year withnessed Pétrolia's most intensive exploration phase since its creation in 2002. With good liquidity and promising projects, the Company was able to initiate a major exploration program focusing on the development of projects offering the most potential.

The Company also acted on several fronts and took advantage of favourable circumstances, allowing it to achieve great progress. The first part of 2008 was marked by significant stock market speculation in the oil and gas sector with the arrival of new players who had considerable influence on how investors perceived Quebec's oil and gas potential. These factors enabled Pétrolia to seek $16 million in new funds. The Company is now in a position to "play in the major leagues" and continue developing attractive projects.

THERE HAS NEVER BEEN AS MUCH MONEY INVESTED IN EXPLORATION IN QUEBEC AS DURING 2008.

This resurgence in investor's interest for the resource sector is particularly important because of the increasing international recognition of Quebec's potential. Although until now this recognition has been primarily associated with the potential of *shale gas*, Pétrolia is playing its cards right. Holding 70% of the oil potential areas covered by permits, it is in an enviable position within the industry. Quebec's oil is a so-called conventional resource, an increasingly rare commodity on the global scale. Should a major discovery be made, Pétrolia would be in a valuable position.

The dawn of the oil industry in Quebec

The Haldimand discovery was crucial for Pétrolia. In addition to being the first major oil discovery in Quebec, it helped to establish a solid foundation for the company's credibility. As such, the Company can aspire to become an oil producer soon and generate income from sales. The work in the Haldimand sector also marks a huge leap forward in the understanding of the geology and processes that led to the formation of hydrocarbons in Gaspé. With this knowledge on its side, the Company should be able to find new Haldimands, but this time on a territory where it holds a 100 percent interest. Thus, in 2008, a new project called Couloir Haldimand emerged and became a priority issue for the company.

Objective for 2009: develop our potential

The ultimate goal of exploration work is always the same: to make a discovery. However, the only way to achieve this result is to drill. As the only step that confirms the value of a reservoir, drilling is the key to all exploration work. Pétrolia will look back at 2008 as an acquisition phase during which the Company kicked off major exploration work, giving it confidence that 2009 will be a year of drilling and development.

Despite the economic conditions, Pétrolia remains optimistic for 2009. With $8.8 million in cash on hand and a sizeable territory under permit, Pétrolia will continue its exploration program as expected, giving priority to the most promising projects while aiming to keep $3 million in cash on hand. Just as Quebec's hydrocarbon potential is generating more and more interest, the value associated with the projects and properties tends to increase accordingly. It is also important to seize this opportunity and speed up development of the properties. On a strategic level, it is to Pétrolia's advantage to team up with partners to develop its projects. This strategy will allow the Company to grow more quickly in exploration while diminishing the financial risk associated with such projects. As such, Pétrolia foresees 2009 as a major step that will bring about the most drillings since its establishment.

It will also be a year when communication will play an important role. The oil industry rightly sparks a lot of enthusiasm and suspense, but it also raises many questions, some of which are still unanswered for the moment. Pétrolia's philosophy is to inform the public about each of the steps and procedures it uses as well as all of the terms and obligations that it intends to follow. With the growth of this industry, questions are emerging around the social acceptability of the projects and their economic and social integration into the environment. Uncertainty and ignorance feed distrust, and without the approval and support of the people directly affected in the community, projects can run up against many obstacles. Aware of this reality, Pétrolia considers that respect for the surroundings and the environment is essential. Therefore, to successfully conquer each stage, the Company will strive to assess the repercussions of its projects and to understand the various issues at stake.

There has never been as much money invested in exploration in Quebec as during 2008. Although exploration efforts were once sporadic and inadequate, it is interesting to see old and new players now coming together to increase their chances of discoveries and to speed up the process. Quebec's oil and gas industry is developing, and in order to take full advantage of the global interest, Pétrolia has prepared to step in. More than ever, Pétrolia is ready to stay the course!

André Proulx, president of the Company

2008 A year dedicated to exploration

A specific objective: 5% of Quebec's consumption

Since its creation, Pétrolia has been one of the leaders in oil exploration in Quebec. Through its acquisitions and agreements, the Company now holds around 70% of the exploration licences for areas with oil potential. At this stage in its development, Pétrolia is now working towards definiting the next steps in its growth, maintaining its ultimate goal of producing, within five years, 5% of the oil consumed in Quebec. This goal may seem ambitious, since it means producing around 20,000 barrels per day. However, the potential and extent of the territory covered by Pétrolia's permits make this goal achievable. The Company has made this objective the focus of its corporate strategy.

Strengthening its position

Throughout the year, Pétrolia has managed to strengthen its position through partnership and financing agreements as well as intensive exploration work. This year has been a crucial acquisition and progress phase for Pétrolia, which will allow it to play a major role in the issues of tomorrow. At the dawn of 2009, the Company's ultimate goal is now all the more meaningful: to become a producer.

Strategic alliances

To achieve a goal of this scale, it is important to establish effective, concerted strategies. The territory to be explored is vast, and time is limited. Throughout the world, large exploration companies are joining forces to create momentum and thus increase their chances of success. Pétrolia understood that it too could only benefit from joining forces with other companies to achieve its goal. However, it has set its sights on maintaining a minimum interest of 30% in each of these projects.

Team

In 2007, Pétrolia assembled a qualified, experienced, multifunctional team. In 2008, other specialists were integrated and the team pursued the development of several projects. These projects represent the cornerstone of Pétrolia's success, and each stage of exploration helps to clarify their respective potential. The Company is now able to develop concepts and perform technical studies on various aspects of its project, giving it an advantage in negotiations with its partners.

PRODUCING, WITHIN FIVE YEARS, 5% OF THE OIL CONSUMED IN QUEBEC

Promotion

With a vast territory, an intensive work program, a discovery, and financial resources in hand, Pétrolia has been actively promoting its potential within Canada and abroad to find partners with whom to continue its activities. Several have shown interest, and negotiations are underway to make these discussions a reality.

Highlights 2008

The Haldimand Agreements

In 2008, Pétrolia signed two agreements with the exploration company Junex. These agreements marked a decisive turning point for Pétrolia, as they changed the stakes of the Company. Not only could it resume its activities on the Haldimand discovery, but it was also released from a right of first refusal and a back-in right on a considerable territory of 6043 km². These agreements give Pétrolia the possibility of exploring the targeted territories according to its own strategies and pace. (*Press release dated May 7, 2008*)

$10 million in financing

Pétrolia managed to take advantage of the favourable market circumstances in the first part of 2008 to raise $10 million in financing at $1.50 per share. This financial cushion has allowed the Company not only to move forward with its exploration work, but also view to the start of 2009 calmly. It is important to note that, out of the total $10 million, $3.6 million was financed by control groups wanting to secure their position within the Company. (*Press release dated June 6, 2008*)

Signing of a $20 million farm-out agreement

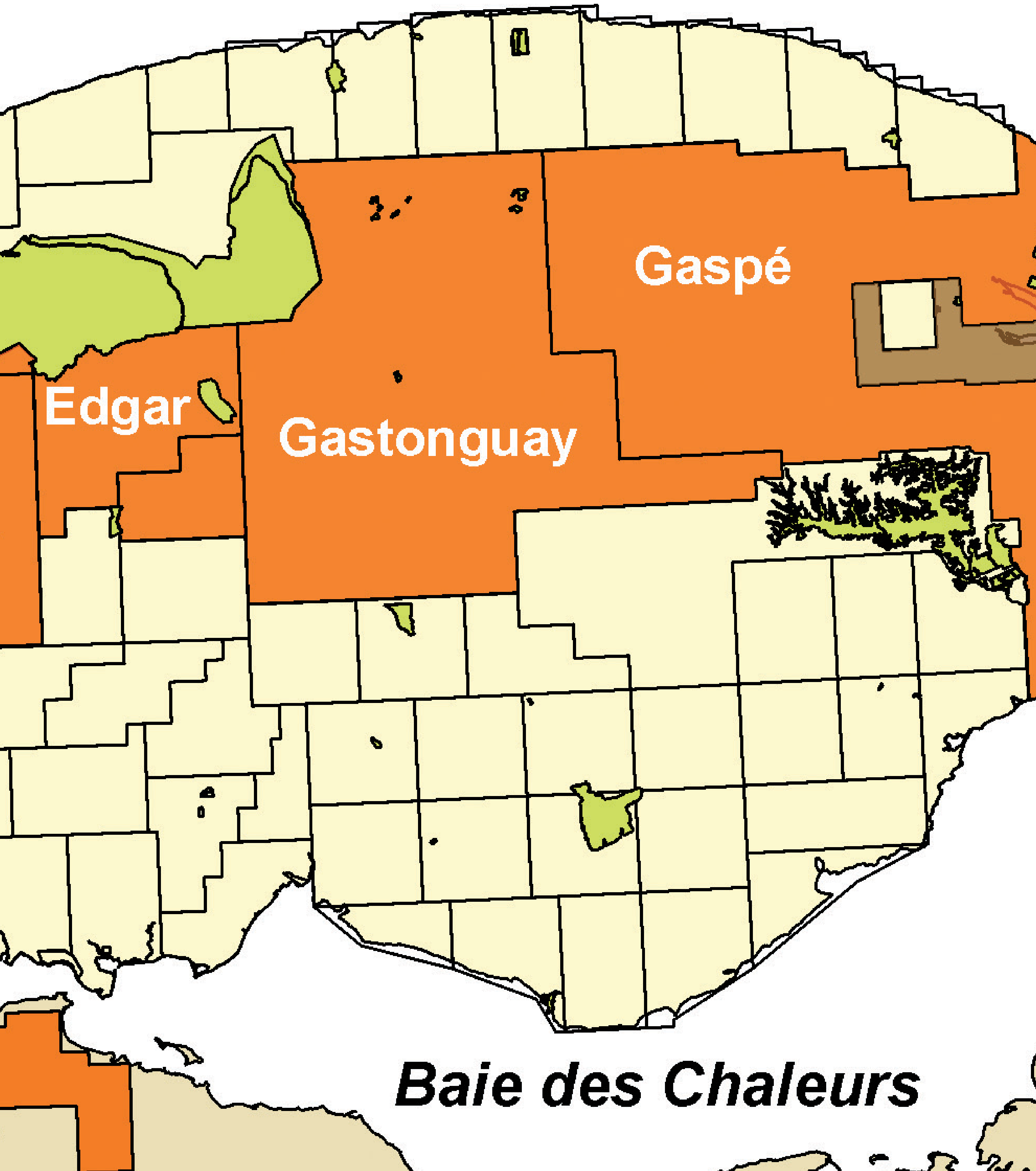
In August, the Company announced that it had signed a $20 million farm-out agreement on the Bourque project with an oil company. Although this agreement went almost unnoticed, it is an important component of Pétrolia's strategy, as a showcase project with great potential that would have required an overly daunting investment for Pétrolia. Since the discovery of hydrocarbons on this property would throw wide open the doors to intensive oil exploration on the rest of its properties, it became essential for Pétrolia to work with a partner in order to move forward this project, which has been a point of interest for several years. (*Press release dated August 5, 2008*)

Completion of two new 3D seismic programs

In Quebec, few 3D seismic profiles has been carried out in the paSt. This year, Pétrolia participated in two important programs as part of the Bourque and Haldimand projects. Such steps are generally taken when projects have progressed to a certain point and demonstrate good potential, since they require significant amounts of money. A 3D seismic profile provides helpful imaging of the reservoir as well as the parameters for select drilling targets. Following the interpretation of the seismic profile, Pétrolia will be ready to move on to the drilling stage for these two projects. (*Press release dated October 7, 2008*)

Acquisition of the Anticosti property

To maintain its position as a leader in the field of oil exploration, Pétrolia seized the opportunity to acquire the Anticosti property. This new acquisition is strongly justified by a geologic setting that is favourable for the discovery of oil and the shallow depth of the petroleum targets (less than 1,500 m). The Anticosti project has excellent potential but requires tremendous preparation and significant investments. In 2008, the Company prepared itself to step up its exploration efforts, particularly through plans for the drilling of several wells in 2009. (*Press release dated January 29, 2008*)


Gaspé
Edgar
Gastonguay
Baie des Chaleurs

Management discussion & analysis for the fiscal year ended September 30, 2008

This management discussion and analysis is an addition and supplement to the audited financial statements for the fiscal years ended September 30, 2008 and 2007, and should be read in conjunction with these statements, which were prepared in accordance with Canadian generally accepted accounting principles (GAAP). It presents the view of management on current Company activities and the annual financial results, as well as a preview of the activities during the coming fiscal year.

Forward-looking statements

This report contains statements that should be considered forward-looking statements. These forward-looking statements are subject to risks, uncertainties, and other factors that could influence the results, performance, and achievements of the Company in such a way that they may differ substantially from the results, performance, and achievements that such forward-looking statements could suggeSt.

Date

This management discussion and analysis for the fiscal year ended September 30, 2008, is dated December 1, 2008.

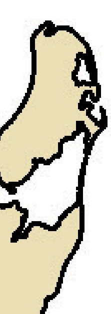
Nature of activities

The Company is incorporated under Part 1A of the Quebec Companies Act. It has been listed on the TSX Venture Exchange since February 16, 2005. Exploration and development of oil and gas properties are the Company's primary activities. Moreover, to achieve its objectives, the Company has signed various partnership agreements characteristic of the oil and gas industry.

Strategy and outlook

As at the date of this report, the Company is operating no wells. As the properties are still in the exploration stage, its only income comes from interest and work management. As such, its financing comes from the issuance of shares of its capital stock.

During the fiscal year, the Company performed $5,722,280 worth of exploration work, including $2,714,219 taken on by partners. For fiscal year 2008, it incurred a loss of $774,527 ($0.022 per share), compared with a loss of $288,145 for fiscal year 2007 ($0.010 per share).



Summary table of work

Haldimand: 900 hectares

Summary	Permits acquired in 2005
	Partnership with Junex (45%) and Gastem (10%)
	Oil and gas potential of the area demonstrated
	Most explored area in the Gaspé region: 7 wells since 1999
	Acquisition of seven seismic profiles in 2005 with a total length of 34 km
	Discovery of light crude in the Pétrolia Haldimand No. 1 well in 2005
	Characterization of the organic matter and petrography of the Pétrolia Haldimand No. 1 well in 2007
	Signature of a joint operating agreement for development of the Haldimand oil and gas project in 2008
	3D seismic campaign over an area of 13 km² in 2008
	Recovery of a pressure recorder installed in the well in 2006 and collection of petroleum samples under reservoir conditions
Proposed work	Continuing analyses and tests in the Pétrolia Haldimand No. 1 well
	Extended production test to confirm the production capacity of the Pétrolia Haldimand No. 1 well
	More detailed geologic studies of the various formations
	Drilling of a second well to target the producing zones identified in the previous well
Cumulative cost of work	$2,454,790

Haldimand Corridor

Summary	North and south extensions of the Haldimand project
	A reassessment of the available data and reprocessing of some of the old seismic lines was carried out
	Soil-geochemistry survey conducted in 2008 (900 samples)
	Acquisition of six seismic lines with a total length of 61 km, including a subsea portion
	High-resolution airborne magnetic survey to extend the government surveys to the East
Proposed work	Analyses of organic matter from drill and field samples
	Planning of a drilling campaign
Cumulative cost of work	$203,926

Bourque: 74,267 hectares

Summary	Exploration of Devonian reefs
	Recognized petroleum potential
	Acquisition and interpretation of old seismic data, now in the public domain
	3D seismic acquisition in 2008
	Study of the maturation of organic matter in surface samples collected in 2007
Proposed work	Interpretation and evaluation of the results of the 3D seismic survey
	Planning of a drilling campaign
Cumulative cost of work	$3,153,270

Anticosti: 638,106 hectares

Summary	Permits acquired in 2007
	Partnership with Corridor Resources Inc.
	Interpretation of seismic lines and available drilling data
	Soil-geochemistry survey carried out in 2008 over the entire island (1,700 samples)
Proposed work	Evaluation and compilation of the latest field work
	Study aimed at the characterization of the organic matter in three wells from the eastern portion of the island
	Planning of a drilling campaign
Cumulative cost of work	$1,137,368

Gaspésia, Edgar, and Marcel-Tremblay: 221,395 hectares

Summary	Permits acquired in 2002, 2006, and 2007, 100% owned by Pétrolia
	A thermal-maturation study carried out in 2003 shows the oil and gas potential
	Acquisition of a 32 km-long 2D seismic line in 2005
	Acquisition of four 2D seismic lines with a total length of 126 km in 2006
	Soil-geochemistry survey in 2008 (334 samples) along the seismic lines of Pétrolia and the Ministry of Natural Resources and Wildlife, and near salt marshes
	Acquisition of four seismic lines with a total length of 52 km in 2008
Proposed work	Analysis of existing seismic, magnetic, gravimetric, and geochemical data
	Planning of a drilling campaign
Cumulative cost of work	$3,385,227

Dalhousie: 68,163 hectares

Summary	Permits acquired in 2006 and 100% owned by Pétrolia
	Oil and gas potential recognized in 2005 by the Geological Survey of Canada
	Evaluation in 2008 of the petrophysical properties of the Ordovician volcanic rocks, which constitute one of the potential objectives in this region
	Acquisition of a gravimetric survey in 2008
	Three-dimensional (3D) modelling of the potential fields shows the extent of the target structure
	Acquisition of 2D reconnaissance seismic profiles with a total length of 39 km in 2008. The potential targets will be the subject of more detailed seismic surveys and possible drilling
Proposed work	Regional soil-geochemistry study
	Planning of a drilling campaign
Cumulative cost of work	$524,247

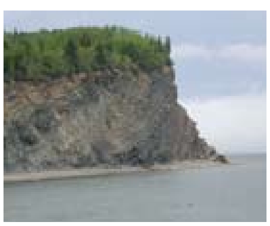
Gastonguay: 258,993 hectares

Summary	Unexplored area
	Only one significant well
	Geologic characteristics similar to those of the Gaspésia and Bourque areas
Proposed work	Reconnaissance and data-compilation work necessary to evaluate the property. If the results are encouraging, Pétrolia will launch a regional seismic program
Cumulative cost of work	$39,808

Results of exploration work during 2008

Haldimand project

Drilling of the Pétrolia Haldimand No. 1 well



Tar Point Gaspé Sandstones, Haldimand Corridor

Fissures filled with oil in Gaspé Sandstones, Tar Point, Haldimand Corridor

Haldimand project

The Haldimand discovery was made by Pétrolia in 2006. Under their development agreement, signed in early may 2008, Pétrolia and its partners, junex and gastem, agreed to respective shares of 45%, 45%, and 10% in the Pétrolia Haldimand No. 1 well and the exploration rights for petroleum and natural gas within an area of 9 km², centred on the discovery well.

Pétrolia Haldimand No. 1 was drilled on a single seismic profile; the extension of the deposit on either side of this profile is therefore unknown. The well's productive sands were cased, and the casing was perforated over only 22 of the 150 metres of the producing interval. It is therefore possible that other zones, if they were perforated, could contribute to an increase in production from the discovery well.

The geometry of the deposit, the reservoir characteristics, and the potential flow from the discovery well are unknown. In order to assess the deposit's reserves, the partners must define its boundaries as well as the physical characteristics of the reservoir. Their short-term goal is to put the Haldimand field into production on a realistic schedule and, above all, to have a recognized independent firm provide a certified estimate of the deposit's minimum reserves. With this document in hand, the value of the Haldimand discovery will be recorded on Pétrolia's books and will become an asset for its shareholders.

In order to accelerate the exploration work, by signing the agreement, the partners agreed to allocate a minimum of $5M to these tasks during the first year. Accordingly, a new exploration program was quickly set up. This program comprises four main activities, three of which have already been completed or are being carried out:

1. A down-hole recorder, run in 2006 in the Pétrolia Haldimand No. 1 well to evaluate the behaviour of the producing zones, was recovered, and a sample was collected from the bottom of the well under reservoir conditions. Study of the results will establish the characteristics of the Haldimand oil and provide additional information on the physical properties of the reservoir. Among other matters, it will be possible to set a production rate for the well and for any future wells, so as not to harm the reservoir and have a negative impact on the long-term recovery rate.
2. A three-dimensional seismic survey (3D seismic) over a total area of 13 km², centred on the Pétrolia Haldimand No. 1 well, was conducted in early fall 2008. The results should provide an excellent three-dimensional image of the Haldimand deposit and help to maximize the chances of success when selecting the next targets for drilling. This image will be an essential tool during the certification of reserves.
3. A surface geochemical survey, consisting of measurements of the concentrations and composition of the hydrocarbons adsorbed by clays in the soils, was carried out on the same grid as the 3D seismic survey. About 215 samples, spaced 200 m apart, were collected over the entire grid. These samples will assist in the selection of the next sites for drilling.
4. The partners will decide on the site for the confirmation hole, based on the results obtained during the previous stages. Drilling should begin in early 2009.

The results of this work should enable Pétrolia and its partners to establish a development plan to put the deposit into production in a gradual and efficient manner, for the benefit of their respective shareholders.

Haldimand Corridor project

The Haldimand Corridor project was conceived during 2008. It involves the areas located to the northwest and southeast of the Haldimand project, in which Pétrolia holds a 100% intereSt. These areas present geological characteristics resembling those observed in the Haldimand field. During the current fiscal year, Pétrolia has invested $1M in exploration work on this project to identify targets to be drilled in 2009.

The Haldimand discovery lies in a narrow geological corridor that extends over a distance of about 50 km on the south shore of Gaspé bay. This corridor is a complex zone containing several faulted anticlinal structures. The prospective areas are mostly located onshore, but they probably extend for some distance beneath Gaspé bay.

Pétrolia has identified two anticlinal structures in this corridor that resemble those at Haldimand. The first is the Tar Point anticline, about 12 km southeast of Gaspé, where oil seeps have been known since the mid-19th century. Moreover, the name Tar Point alone is sufficiently suggestive. The seeps in the cliff at Tar Point, which are well known to geologists, constitute proof that an oil-producing system is operating in this part of the Gaspé region. The Tar Point anticline, whose reservoir zone is probably not as deep as the one that is producing at Haldimand, represents a potential drilling target. The second structure, seen in the coastal cliffs at Fort-Prével, has been confirmed by the reprocessing of old seismic data. However, the reservoir zone is deeper than at Haldimand or Tar Point. The work already completed and the activities in progress will be used to confirm the theories about these two structures.

The current purpose of evaluating the Haldimand Corridor is to discover other structures like Haldimand. However, traps of other kinds may be present and prove to be just as effective for containing hydrocarbons.

Bourque project

Seismic survey, Gaspésia

Pétrolia views the Haldimand Corridor as a priority project, in which it has invested much effort over the course of the last fiscal year. In order for the company to be in a position to drill in 2009, the following work has been carried out or is now in progress:

1. A 2D seismic survey comprising six profiles for a total of 83 km, ten of which are the marine extensions of land-based profiles. Two of these profiles are intended to confirm the structures already selected, while the other four are aimed at finding new targets. When combined with the knowledge acquired from the 3D seismic survey on the Haldimand project and the reinterpretation of the reprocessed earlier seismic lines, this survey will enable the shape of the structures in the southeast section of the corridor to be defined.
2. A 900-sample soil-geochemistry survey that covers the entire Haldimand Corridor. This is an adsorbed-gas study on the clay fraction of the soils, to detect the presence of anomalous concentrations of hydrocarbons overlying reservoirs. The results are expected in January 2009.
3. Pétrolia has also performed analyses of the organic matter in drill cuttings and field samples. The results of this study are also expected in early 2009. They will assist in understanding the geologic conditions at the time the hydrocarbons were emplaced.
4. Lastly, Pétrolia conducted an airborne magnetic survey covering the eastern portion of Gaspé bay to supplement the public survey carried out by the Ministry of Natural Resources and Wildlife. This survey will enable the broad geological structures seen on land to be traced beneath the bay. The method is complementary to seismic surveying.

All this work will serve to confirm the potential of the structures that we have targeted and to define the most promising areas for follow-up exploration.

Bourque project

During the Devonian, the present-day Gaspé region was a sea bottom located close to the equator, where there were environments favourable for the growth of reef complexes. The Devonian also saw the emplacement of the reef complexes of the Western Canadian Sedimentary Basin. In 1947, the discovery of the giant Leduc oilfield, whose production has since exceeded 100 million barrels of petroleum, was a turning point for oil exploration in Alberta. Since that time, a number of major deposits have been discovered in these ancient reefs.

The Bourque project is located in the northwest portion of the Gaspé property, 30 km east of Murdochville and 70 km west of the town of Gaspé. This property consists of four permits, 100% owned by Pétrolia.

On August 5, 2008, Pétrolia signed a $20 million farmout agreement with an oil company. This sum will be invested in exploration and development work for the Bourque project. The terms of the agreement were set out in the press release issued by Pétrolia on August 5, 2008.

The first phase of the work, a three-dimensional (3D) seismic survey over an area of 60 km^2 was carried out during the summer of 2008. The survey will provide a three-dimensional image of this region that will delimit the limestone reefs in the west point formation and target potential hydrocarbon traps. The data acquired are being processed, and the preliminary results received to date are of very good quality. The interpretation of these new data will be performed in early 2009. The drilling of an approximately 3,000-metres well, required for the evaluation of one of the targets, is scheduled for 2009.

This agreement is of critical importance for Pétrolia, not only in respect of the amounts invested but above all because it enables the exploration of a type of trap that has major potential for petroleum. The discovery of hydrocarbons in a Devonian reef would open the door to petroleum exploration in new areas of the Gaspé region. By joining forces with a partner to explore this property, Pétrolia aims to share the risks associated with this type of investment, while at the same time benefiting from its partners' expertise.

Anticosti property

During the current fiscal year, Pétrolia has obtained the mineral rights over an area of 6,381 km^2 on Anticosti island. Under this agreement, it will substitute for Hydro-Québec in the agreement that bound it to Corridor Resources Inc. The Company will now have interests ranging from 25% to 50% in 35 permits on the island. As a result of this acquisition, it now has interests in 18% of all the land-based permits issued in Quebec.

Anticosti island is part of the siluro-ordovician carbonate platform that occupies the northern portion of the Gulf of St. Lawrence, off the coast of the Gaspé Peninsula. This platform extends eastward as far as Newfoundland. Westward, it meets the St. Lawrence Lowlands platform, which extends as far as Texas.

Over the last fifty years, several world-class discoveries have been made in geological settings similar to that of Anticosti island. Among the biggest, the Albion and Scipio fields must be mentioned. These older fields have produced more than 200 million barrels of oil equivalent. More recently, Talisman Energy Inc. discovered significant quantities of natural gas in similar rock formations in New England. Closer to us, Talisman is actively exploring for gas deposits in the St. Lawrence Lowlands.

Anticosti project

Anticline in the Romaine Formation, Mingan Islands, Anticosti platform

Gaspésia, Edgar, and Marcel-Tremblay properties

Porous dolostones in Sayabec Formation, Gaspésia property

A number of oil companies have explored Anticosti island over the last 50 years. In total, 17 holes have been drilled on the island. About 850 km of modern seismic data has been acquired since the end of the 1990s, and eight wells have been drilled on them: five by shell and three by Hydro-Québec in 2003.

The feature that makes Anticosti island particularly attractive for oil exploration is that its petroleum can be found at shallow depths. In fact, if we divide the island in two along its length, the targets in the northern half of the island are shallow, and the area is favourable for the discovery of petroleum. The targets in the southern half of the island are much deeper, and the area is above all conducive to the discovery of natural gas and condensates.

Pétrolia has identified several targets that are ready for drilling, with depths ranging from 900 m to 1,500 m. The most recent wells have revealed the existence of hydrothermal-type carbonate reservoirs with significant reservoir characteristics. Although only formation water has been found in them so far, the data obtained from these reservoirs suggest that if petroleum had been produced instead of water, the output would have been in excess of 1,000 barrels per day. These are reservoirs with exceptional characteristics, by far the best encountered in Quebec up to this time.

The analysis of modern seismic data has enabled Pétrolia to identify significant petroleum objectives and numerous drilling targets. In August 2008, in order to select the best, it carried out a survey that combined a microbiological technique with a geochemical technique. It involved measuring the concentrations and composition of the hydrocarbons adsorbed on soil clays and measuring the relative concentration of certain species of bacteria that metabolize hydrocarbons. About 1,700 samples were collected from selected areas of the island. The analytical results will assist in the definition of the targets that offer the best potential for discoveries. A drilling campaign that was to follow this survey had to be postponed until 2009, owing to technical problems. Pétrolia's strategy with regard to the island remains to drill several wells as soon as possible.

Gaspésia, Edgar, and Marcel-Tremblay properties

The contiguous Gaspésia, Edgar, and Marcel-Tremblay properties cover a large area west of the centre of the Gaspé region, between the towns of Amqui and Murdochville. Black clays rich in organic matter have been observed there: this type of rock, called a source rock, is an essential element in the formation of hydrocarbons. Thermal-maturation studies have shown that a large portion of these properties is favourable for the preservation of natural gas and that a small portion is favourable for the preservation of petroleum.

The geologic setting of these properties is encouraging for the presence of good reservoir rocks. A few kilometres to the east and west of Pétrolia's permits, dolomites and porous sandstones are seen: these constitute the key elements for exploration in this part of the Gaspé region. These rocks represent excellent potential reservoirs that can accumulate significant quantities of natural gas if they are found in structures buried at great depths. The characteristics of this type of reservoir also suggest the possibility of wells with significant production capacities.

Over the last year, Pétrolia has devoted a lot of efforts to the interpretation of the available seismic data on these properties, in particular the 126 km of profiles acquired in December 2006. The Company's geologists have also investigated the reservoir potential of the geologic units in outcrop. As a result of this work, potential structures have been identified and a detailed 53 km 2D seismic survey was acquired during the summer of 2008. The results of the survey are expected in early 2009.

In order to assign exploration priority to the structures most likely to contain hydrocarbons, Pétrolia also carried out a geochemical survey using the adsorbed-gas technique. A total of 334 samples were collected along the paths of these new seismic profiles, on the old seismic lines, and over a few salt marshes identified in the region. This method may prove to be a valuable tool for delimiting the area of the deposits and determining whether gas or petroleum is involved. Integration of the seismic and geochemical results will enable a better definition of targets for drilling.

Since the nearest market is located in northern New Brunswick about 80 kilometres from our properties, and since at this time, there is no gas transport infrastructure to receive the gas, Pétrolia is particularly interested in giant traps at deep levels likely to contain large quantities of natural gas that could justify such infrastructures.

The Company is actively seeking one or more partners to share in the exploration of this vast area.

Geochemical soil sample collection, Gaspésia

Dalhousie properties

Gastonguay property

Dalhousie properties

The Dalhousie properties, located in northern New Brunswick, have potential for gas. They cover an extensive anticlinal structure called the Popelogan Anticline. During the previous fiscal year, Pétrolia established the presence of a system of open fractures in the volcanic rocks occupying the core of the anticlinal structure. Work is under way to determine the nature of these fractures and to find out whether they previously contained natural gas. This system of open fractures could constitute a reservoir with exceptional production characteristics if it is present at depth in a large volume of rock.

Pétrolia is exploring the extension of this giant structure towards the north. Within the borders of its permits, little is known about the structure's surface expression, and it is subject to interpretation. During the current fiscal year, Pétrolia commissioned a study of the gravimetric data and of the available magnetic data. The results of this study have enabled the construction of a model that confirms the extension of the anticlinal structure at depth. The model indicates that this high zone covers a large area southeast of the town of Dalhousie. It also shows that the reservoir zone is buried deeply enough for the fractured rocks to act as a reservoir for natural gas. Finally, the model enabled Pétrolia to choose the best location for a new 2D seismic campaign covering 39 km, conducted in November 2008.

In addition, Pétrolia has acquired new permits and expanded its exploration area by 235 km^2 so as to cover all of the area offering a promising potential for gas.

It is interesting to note that a thermal power plant is located in the vicinity of Pétrolia's permits. Before 2006, the 300 MW Dalhousie power station operated on orimulsion, a mixture of bitumen and water. Venezuela stopped producing it in 2006, and since that time, the plant has been using heavy oil. Pétrolia estimates that it would take 23 bcf (billion cubic feet) of natural gas per year to completely replace the petroleum used by this power plant. For both Pétrolia and northern New Brunswick, a natural-gas discovery would obviously have considerable economic consequences.

Gastonguay property

The Gastonguay property covers an area of 2,590 km^2 in the centre of the Gaspé region. Very little exploration work has so far been carried out there. One old well, 1,800 m deep, partially intersected a major anticline on the south of the property but did not reach the targeted silurian and ordovician rocks.

Although the bedrock geology of this property is virtually unknown, we know that it has geologic features similar to those seen on the Bourque project, about 40 km to the east, and to those on the Gaspésia property to the west. The results of a magnetic inversion performed in 2008 indicate that the pre-Silurian basement in the northern part of the property is relatively shallow. This may represent an uplifted tectonic block on which Siluro-Devonian reefs could have developed and become buried at attractive depths.

Reconnaissance and data-compilation work will be necessary before the property can be evaluated. If the results are encouraging, Pétrolia will go ahead with a regional seismic program.

Management analysis of the financial position

Effectiveness of disclosure procedures and controls

The President and Chief Executive Officer and the Vice President of Finance have designed or supervised the design of disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them, particularly during the period in which the annual filings are being prepared. They have also designed or supervised the design of internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

Operating results

For fiscal year 2008, the Company's income consisted of interest income of $224,714 on short-term investments, compared with interest income of $52,924 for fiscal year 2007, project management income of $26,736, and a gain on the disposal of fixed assets. The increase in interest income is explained by the issuance of shares of its capital stock, which generated $10,777,984 in additional cash flow compared with 2007.

The unrealized gain increased by $300,000 from 2007. However, after the end of the fiscal year, the investment lost nearly one-third of its value following the collapse of the stock markets.

Liquid assets and financing source

As at September 30, 2008, the Company had cash and equivalents of $11,275,057, with positive working capital of $11,120,066.

During the fiscal year, the Company issued 11,705,967 shares in exchange for $14,861,684. Issuance expenses for private investments resulted in a disbursement of $795,973. Management believes that the current cash position is sufficient to meet its current commitments. Traditionally, the Company has been able to rely on its ability to raise capital through public offerings and negotiated private investments.

The Company currently operates no oil wells. Because the Company is in the exploration stage, its only revenue for fiscal year 2008 came from interest income and project management fees. It is therefore funded through the issuance of shares of its capital stock. The "commitments" section discloses the Company's contractual commitments in order to keep its research permits active. The Company had no flow-through financing during the fiscal year ended September 30, 2008.

Selected annual information

	2008 $	2007 $	2006 $
Revenue	255,174	52,924	56,353
Net loss	(774,527)	(288,145)	(477,925)
Basic and diluted net loss per share	(0.022)	0.010	(0.0190)
Total assets	26,831,615	12,736,957	9,426,687
Long-term financial liabilities	–	20,150	31,845
Dividend per share	N/A	N/A	N/A

Analysis of general and administrative expenses

The main increase in general and administrative expenses came from stock-based compensation. During the fiscal year, the Board of Directors voted on two stock option allocations, resulting in 1,350,000 options granted in 2008, compared with 1,125,000 options in 2007. According to the assumptions in Note 12 of the annual financial statements, the compensation expenses charged against earnings totalled $668,775 for 2008 and $148,770 for 2007, an increase of $520,005 over the previous fiscal year.

Summary of quarterly results

	2008			2007				2006
	September	June	March	December	September	June	March	December
	$	$	$	$	$	$	$	$
Revenue	129,439	44,908	37,479	43,349	17,008	1,366	12,212	22,338
Net earnings (net losses)	(2,193,065)	1,487,502	(107,581)	38,617	(192,054)	(390,336)	315,253	(21,008)
Net earnings (net losses) per share								
Basic	(0.0623)	0.0448	(0.0035)	0.0013	(0.0066)	(0.0134)	0.0109	(0.0007)
Diluted	(0.0623)	0.0399	(0.0035)	0.001	(0.0066)	(0.0134)	0.0095	(0.0007)

Revenues consist primarily of earned interest for each of the quarters. General and administrative expenses are relatively stable from one quarter to the next. The main changes in quarterly losses or earnings are explained as follows:

2007 – March:
Gain of $400,000 resulting from the recording of an investment at fair value;

2007 – June:
Recorded an unrealized loss on a long-term investment of $150,000 and stock-based compensation of $148,770;

2007 – December:
Recorded an unrealized gain on a long-term investment of $110,000;

2008 – June:
Recorded an unrealized gain on a long-term investment of $1,590,000;

2008 – September:
Recorded an unrealized loss on a long-term investment of $1,380,000 and stock-based compensation of $461,325.

Related-party transactions

Transactions were made with two companies (Géominex Inc. and Gestion Lestrois Inc.) led by one of Pétrolia's directors, who also holds a minority intereSt.

	2008 $	2007 $
Salaries and fringe benefits	(16,445)	–
Travel	(1,069)	–
Maintenance and office furniture	(25,319)	–
Deferred exploration expenses	676,529	340,246
Promotion and entertainment	(1,045)	–
Telecommunications	(12,970)	–
Other expenses	(76,408)	6,413

The accounts receivable due from these companies as at September 30, 2008, was $54,696 (2007, balance due – $68,075).

Transactions were made with a director who works as a consultant for the Company under the corporate name SEISServ:

	2008 $	2007 $
Deferred exploration expenses	66,314	62,969

The balance due to this director as at September 30, 2008, was $18,492 (2007 – $5,769).

The Company made the following transactions with Ressources Appalaches Inc., a company sharing the same chief executive officer:

	2008 $	2007 $
Office supplies	3,600	4,680
Salaries and fringe benefits	245,156	191,823
Telecommunications	6,505	4,082

The balance due to this company as at September 30, 2008, was $63,039 (2007 – $55,159).

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

Fourth quarter

The fourth quarter closed with a loss of $2,193,065 ($0.0623 per share). Revenue for the quarter totalled $129,439, and general and administrative expenses were $590,585. The increased general expenses were caused by stock-based compensation recorded in the amount of $461,325.

Accounting policies

Readers are asked to refer to Note 3 in the annual financial statements of September 30, 2008, for a detailed description of the changes to accounting policies.

New accounting standards

In October 2007, the company adopted the new recommendations of Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation", which replace Section 3861 "Financial Instruments – Disclosure and Presentation" of the CICA Handbook. These two new sections put more emphasis on the information to be disclosed regarding the nature and magnitude of the risks involved with financial instruments and how the entity manages these risks.

In October 2007, the Company also adopted the new recommendations of Section 1535 "Capital Disclosures". The new section establishes standards for disclosing information about a Company's capital and how it is managed.

Future accounting standards

The CICA released these new sections, which will apply to the Company's interim and annual financial statements beginning October 1, 2008:

General standards of financial statement presentation

In June 2007, the CICA modified Section 1400 "General Standards of Financial Statement Presentation" in order to require management to assess the Company's ability to continue its operations for, but not limited to, a minimum period of twelve months from the closing date of the fiscal period. These new requirements apply to fiscal years that started on or after January 1, 2008. Accordingly, the Company will apply them beginning October 1, 2008.

The new requirements cover only the information to be disclosed and will have no impact on the Company's financial results.

Goodwill and intangible assets

In February 2008, the CICA issued the new Section 3064, "Goodwill and Intangible Assets", which supersedes Section 3062, "Goodwill and Other Intangible Assets". The release of this new section led to the elimination of Section 3450, "Research and Development Costs" as well as the resulting modifications to certain recommendations of the CICA Handbook. The new section establishes standards for companies in the recognition, measurement, presentation, and disclosure of goodwill and intangible assets. This new section applies to fiscal years opened on or after October 1, 2008. Accordingly, the Company will apply them from this date. The Company's management currently assesses the impact of applying this new section on the financial statements but feels that it is unlikely to have any impact on them.

International financial reporting standards

The CICA Accounting Standards Board (AcSB) has adopted a strategic plan to converge with the International Financial Reporting Standards (IFRS) for companies having public accountability obligations. As the AcSB confirmed on February 13, 2008, the conversion requires companies that have public accountability obligations to adopt the IFRS fully in 2011. The transition to the IFRS will apply to interim and financial statements for fiscal years opened on or after January 1, 2011. The Company will switch to the new standards according to the schedules established by these new rules and will closely monitor all changes resulting from this convergence.

Financial instruments

Risk management policies

Risks are managed as part of a management framework that takes into account the nature of the activities as well as the level of risk that the Company considers reasonable to assume by considering the desired risk/return ratio and shareholder expectations.

Credit risk

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

Liquidity risk

Liquidity risks are the risks that the Company would be unable to cope with its financial obligations at the required times or could only do so at excessive coSt. The Company finances its growth through the issuance of shares. One of management's main financial objectives is to maintain an optimal level of liquidities by actively managing the exploration work to be performed. Considering the liquid resources at the Company's disposal, management feels that the liquidity risks to which the Company is exposed are low.

Market risk

Market risk is the risk that the fair value of the investment held for trading would fluctuate due to market price variations. Market risk includes three types of risk: exchange risk, interest rate risk, and other price risk.

Risks and uncertainties

The oil and gas properties held by the Company are in the exploration stage. The Company's long-term profitability is partially linked to the costs and the success of the exploration and subsequent development programs, which may also be influenced by various factors.

Among these, factors to be considered include environmental regulations, features of possible oil and gas accumulations, i.e., the quality and quantity of the resources, as well as development costs for a production infrastructure, financing costs, the market value of oil and gas, and the competitive nature of the industry.

Significant investments are necessary to complete the exploration and reserve development programs. In the absence of cash flow generated by oil and gas operations, the Company has been depending on capital markets to finance its oil exploration and development activities. Market conditions and other unforeseeable events may have an impact on the ability to raise the funds required for its development.

Information on shares issued, warrants, and stock options as at December 1, 2008

Common shares: 40,914,219 shares have been issued and are outstanding.

Warrants: Each warrant gives its holder the right to purchase a common share in the Company at the indicated exercise price until the expiration date:

1,750,000 shares at $1.00 per share until April 26, 2009;

3,000,000 shares at $1.00 per share until July 10, 2009;

3,756,665 shares at $1.50 per share until December 6, 2009.

Stock options outstanding: Stock options have been granted to the Company's directors, members of senior management, employees, and service providers on an ongoing basis as follows:

270,000 options exercisable at a price of $0.40 per share until March 15, 2010;

1,075,000 options exercisable at a price of $0.40 per share until February 3, 2011;

150,000 options exercisable at a price of $0.58 per share until May 10, 2011;

1,037,500 options exercisable at a price of $0.40 per share until June 21, 2012;

600,000 options exercisable at a price of $0.60 per share until February 12, 2013;

150,000 options exercisable at a price of $0.60 per share until March 3, 2013;

600,000 options exercisable at a price of $1.25 per share until July 7, 2013.

Additional information

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

b) Rule 51-102A-Section 5.3
Details of the deferred exploration expenses for the fiscal year ended September 30, 2008 and 2007, are presented in the statement of deferred exploration expenses and in Note 10 of the Company's annual financial statements.

Management's responsibility for financial information

Pétrolia's financial statements are the responsibility of Management and have been approved by the Board of Directors under the recommendation of the auditing committee. The financial statements were prepared by Management in accordance with Canadian generally accepted accounting principles and were approved by the Company's auditors. The financial statements include some amounts that are based on the use of estimates and judgments. Management has reasonably determined these amounts to ensure that the financial statements are presented fairly in all material respects.

Rimouski, December 1, 2008

On behalf of the Board of Directors

André Proulx, president of the Company

Auditors' report to the shareholders of Pétrolia Inc.

We have audited the balance sheets of Pétrolia Inc. as at September 30, 2008 and 2007, and the statements of income, shareholders' equity, deferred exploration expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examinating, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Mallette

Mallette
LLP
Chartered Accountants
Rimouski, November 25, 2008

Balance sheet

As at September 30	2008 $	2007 $
ASSETS		
Current assets		
Cash and equivalents	11,275,057	48,473
Short-term investments		3,000,000
Receivables (Note 6)	3,027,612	261,683
Prepaid expenses	72,344	117,763
	14,375,013	3,427,919
Investments (Note 7)	1,040,000	565,000
Fixed assets (Note 8)	194,563	67,147
Oil and gas properties (Note 9)	2,090,152	1,610,714
Deferred exploration expenses (Note 10)	9,131,887	7,066,177
	26,831,615	12,736,957
LIABILITIES		
Current liabilities		
Payables and accrued expenses	2,963,760	315,976
Future taxes (Note 13)	291,187	41,034
Current portion of long-term debt (Note 11)	–	11,694
	3,254,947	368,704
Long-term debt (Note 11)	–	20,150
Future taxes (Note 13)	1,382,559	1,566,097
Deposit on shares to be issued	–	3,000,000
	4,637,506	4,954,951
SHAREHOLDERS' EQUITY		
Capital stock (Note 12)	21,674,783	7,728,400
Contribution surplus – Stock options	1,877,170	636,968
Contribution surplus – Expired stock options	195,946	195,901
Deficit	(1,553,790)	(779,263)
	22,194,109	7,782,006
	26,831,615	12,736,957

Commitments and contingencies (Notes 14 and 15)

On behalf of the Board

André Proulx, Director

Clément Duchesne, Director

Statement of income

Fiscal year ended September 30	2008 $	2007 $
REVENUE		
Project income	26,736	–
Interest income	224,714	52,924
Gain on disposal of rolling stock	3,724	–
	255,174	52,924
GENERAL AND ADMINISTRATIVE EXPENSES		
Stock-based compensation (Note 12)	668,775	148,770
Salaries and fringe benefits	327,067	261,437
Insurance	42,114	42,635
Travel	46,860	26,364
Governmental fees	–	11,666
Maintenance and office supplies	4,066	18,622
Information for shareholders	59,772	20,665
Interest on loans	1,898	951
Promotion and entertainment	65,579	59,347
Professional fees	33,994	25,190
Telecommunications	9,806	20,204
Depreciation of fixed assets	33,513	19,637
Costs attributable to exploration expenses	(65,160)	(43,033)
Others	30,883	54,854
	1,259,167	667,309
LOSS BEFORE OTHER ITEM AND INCOME TAXES	(1,003,993)	(614,385)
OTHER ITEM		
Unrealized gain on financial assets held for trading	520,000	220,000
LOSS BEFORE INCOME TAXES	(483,993)	(394,385)
Future income taxes (Note 13)	290,534	(106,240)
NET LOSS	(774,527)	(288,145)
BASIC AND DILUTED NET LOSS PER SHARE	(0.022)	(0.010)

Statement of shareholders' equity

	Capital stock		Contributed surplus			
			Stock options	Expired stock options	Deficit	Total
	Shares	$	$	$	$	$
Balance as at September 30, 2006	28,548,649	7,379,827	450,057	159,596	(491,118)	7,498,362
Issued during the year						
Warrants exercised	104,500	61,675	–	–	–	61,675
Broker warrants exercised	555,103	292,223	(81,284)	–	–	210,939
Share issuance costs	–	(5,325)	–	–	–	(5,325)
Other activities						
Stock-based compensation	–	–	304,500	–	–	304,500
Expired stock options	–	–	(27,000)	27,000	–	–
Expired broker warrants	–	–	(9,305)	9,305	–	–
Net loss	–	–	–	–	(288,145)	(288,145)
Balance as at September 30, 2007	29,208,252	7,728,400	636,968	195,901	(779,263)	7,782,006
Issued during the period						
Cash	11,416,665	14,749,999	–	–	–	14,749,999
Broker warrants exercised	201,802	106,716	(30,031)	–	–	76,685
Stock options exercised	87,500	56,692	(21,692)	–	–	35,000
Share issuance costs	–	(967,024)	–	–	–	(967,024)
Other activities						
Stock-based compensation	–	–	1,291,970	–	–	1,291,970
Expired broker warrants	–	–	(45)	45	–	–
Net loss	–	–	–	–	(774,527)	(774,527)
Balance as at September 30, 2008	40,914,219	21,674,783	1,877,170	195,946	(1,553,790)	22,194,109

Statement of deferred exploration expenses

Fiscal year ended September 30	2008	2007
	$	$
EXPLORATION EXPENSES		
Analyses	7,582	4,462
Drilling	162,211	111,948
Geology	1,008,371	310,364
Geophysical surveys	4,239,167	1,001,874
General exploration expenses	76,724	43,033
Stock-based compensation	228,225	155,730
	5,722,280	1,627,411
DEDUCTIONS		
Exploration subsidies	942,351	132,797
Partner contributions	2,714,219	–
	3,656,570	132,797
NET INCREASE IN EXPLORATION EXPENSES FOR THE FISCAL YEAR	2,065,710	1,494,614
BALANCE, BEGINNING OF YEAR	7,066,177	5,571,563
BALANCE, END OF YEAR	9,131,887	7,066,177

Statement of cash flows

Fiscal year ended September 30	2008 $	2007 $
OPERATING ACTIVITIES		
Net loss	(774,527)	(288,145)
Items not affecting cash		
Stock-based compensation	668,775	148,770
Depreciation of fixed assets	33,513	19,637
Gain on disposal of rolling stock	(3,724)	–
Future income taxes	(290,534)	(106,240)
Unrealized gain on financial assets held for trading	(520,000)	(220,000)
	(305,429)	(445,978)
Net change in non-cash operating working capital items	(156,689)	49,293
	(462,118)	(396,685)
FINANCING ACTIVITIES		
Deposit on shares to be issued	–	3,000,000
Acquisition of financing	37,889	–
Capital stock issuance	14,861,684	272,614
Share issuance costs	(795,973)	(5,325)
Repayment of long-term debt	(69,733)	(11,406)
	14,033,867	3,255,883
INVESTING ACTIVITIES		
Acquisition of investments	–	(3,045,000)
Disposal of investments	45,000	–
Acquisition of fixed assets	(167,060)	(28,691)
Disposal of rolling stock	4,906	2,500
Acquisition of oil and gas properties	(479,438)	(89,081)
Increase in deferred exploration expenses net of deductions	(1,748,573)	(1,533,857)
	(2,345,165)	(4,694,129)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	11,226,584	(1,834,931)
CASH AND EQUIVALENTS, BEGINNING OF YEAR	48,473	1,883,404
CASH AND EQUIVALENTS, END OF YEAR	11,275,057	48,473
CASH AND EQUIVALENTS ARE AS FOLLOWS:		
Cash	1,975,357	48,473
Money market fund	9,299,700	–
	11,275,057	48,473

Additional cash flow information: Note 17

Notes to financial statements September 30, 2008

1 INSTRUMENT OF INCORPORATION AND NATURE OF ACTIVITIES

The Company, incorporated under part IA of the Québec Companies Act, is an oil and gas exploration company. Its stock has been listed on the TSX Venture Exchange since February 16, 2005, under the symbol PEA.

The oil and gas properties held by the Company are currently in the exploration stage. The Company's long-term profitability is related in part to the costs and success of the exploration and subsequent development programs. The Company has not yet determined whether its properties hold economically viable reserves.

2 FINANCIAL STATEMENT PRESENTATION

These financial statements were prepared by the Company in accordance with Canadian generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires Management to adopt estimates and assumptions that affect any recorded asset and liability amounts as at the date of the financial statements as well as the recorded income and expense amounts during the reporting periods. Actual results could differ from these estimates. All amounts are expressed in Canadian dollars.

Certain comparative figures have been reclassified to conform to the presentation adopted during fiscal year 2008.

3 SIGNIFICANT ACCOUNTING POLICIES

New accounting standards

In October 2007, the company adopted the new recommendations of Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation," which replace Section 3861 "Financial Instruments – Disclosure and Presentation" of the CICA Handbook. These two new sections put more emphasis on the information to be disclosed regarding the nature and magnitude of the risks involved with financial instruments and how the entity manages these risks. Additional information is presented in Note 4 "Financial Instrument Disclosures".

In October 2007, the Company also adopted the new recommendations of Section 1535 "Capital Disclosures". The new section establishes standards for disclosing information about a Company's capital and how it is managed. The additional information required by the adoption of this standard is presented in Note 5 "Information Regarding Capital".

Recording of income

Investment income is recorded when it is earned. Project income is recorded when the exploration work is performed.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are converted at the prevailing exchange rate as at the balance sheet date. Income and expenses denominated in foreign currencies are recorded at the prevailing exchange rate as at the transaction date. Foreign exchange gains or losses are included in the Company's net earnings.

Fixed assets

Fixed assets are recorded at cost. Depreciation is based on their estimated useful lives using the following methods and annual rates:

	Methods	Rate
Leasehold improvements	Straight-line	3 years
Office equipment	Declining balance	20%
Computer equipment and rolling stock	Declining balance	30%

Oil and gas properties and deferred exploration expenses

The Company follows the full-cost accounting method, under which costs associated with acquisition, exploration, and property development activities, net of government grants, are recorded by property until the commercial activities begin. These costs include geological and geophysical expenses, the cost of drilling producing and non-producing wells, the portion of overhead expenses directly attributable to these activities, and the estimated installation abandonment expenses. If economically profitable oil and gas reserves are developed, the capitalized costs of the properties in question are transferred to property, plant, and equipment and amortized using units of production for the fiscal year based on probable and demonstrated oil and gas reserves. If it is determined that capitalized acquisition, exploration, and development costs are not recoverable over the estimated useful life of the property, or if the project is abandoned, the project is written down to its net realizable value.

The recovery of amounts recorded for oil and gas properties and related deferred exploration costs depends on the discovery of economically recoverable reserves, the Company's ability to obtain the necessary financing to complete development and future profitable production, or the proceeds from disposal of such properties. Amounts recorded for oil and gas properties and deferred exploration costs do not necessarily represent the present or future value. Lastly, the Company's activities are subject to governmental regulation.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Site restoration costs

A provision for restoration costs, net of any expected recovery, is recorded if such costs are reasonably determinable. This provision is calculated based on estimated costs according to the expected method and the extent of environmental remedial work, in accordance with legislative requirements, industry practices, current technology, and the potential future use of the site. In addition, a provision is established once Management approves the sale or closure of an oil or gas property and is recorded at fair value in consideration of the increased cost of the assets in question.

Joint venture activities

The Company conducts certain oil and gas exploration activities on a joint venture basis. The present financial statements take into account only the Company's proportionate interest in such activities.

Government subsidies and partner contributions

Exploration tax credits, subsidies related to exploration expenses, and partner contributions are accounted for and applied against exploration expenses. Subsidies related to operations are recorded as revenues in the statement of income.

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

Income taxes

The Company uses the tax liability method of accounting for income taxes. Under this method, future income tax debits and credits are determined according to differences between the book value and tax value of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws as of the date of the financial statements for the fiscal years in which the temporary differences are expected to be recovered.

In accordance with the tax laws, deductions for resource expenses related to exploration and development activities and financed by flow-through shares have been forfeited in favour of the investors. Under the tax liability method used to account for income taxes, future income taxes related to differences arising at the time of the forfeiture have been accounted for with a corresponding charge to share issuance costs.

Basic and diluted net loss per share

Net loss per share is calculated according to the weighted average of outstanding shares during the reporting period. The diluted net loss per share is similar to the net loss per share, since the exercising of warrants and stock options would have the effect of reducing the loss per share.

Stock-based compensation

The Company accounts for the allocation of stock options granted under the stock option plan and also accounts for the allocation of broker warrants as part of certain funding on a fair value basis. Stock options granted to salaried and non-salaried persons and broker warrants are accounted for on the basis of their fair value according to the Black-Scholes option pricing model.

When options and broker warrants are granted, the compensation expenses are applied to the activity in question and offset in contributed surplus.

Any consideration paid by the participants when options and broker warrants are exercised, as well as the contributed surplus created when options and broker warrants are allocated, are credited to capital stock.

Capital stock

Capital stock issued as non-monetary consideration is accounted for at the fair market value of the shares to be issued by the Company and depends on the stock price on the date on which the stock issuance agreement was entered into.

Cash and equivalents

The Company's cash and equivalents include cash and short-term investments that are convertible into cash at any time.

Future accounting changes

The CICA released the following new sections, which will apply to the Company's interim and annual financial statements beginning on October 1, 2008.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

General standards of financial statement presentation

In June 2007, the CICA modified Section 1400 "General Standards of Financial Statement Presentation" in order to require Management to assess the Company's ability to continue its operations for, but not limited to, a minimum period of twelve months from the closing date of the fiscal period. These new requirements apply to fiscal years that started on or after January 1, 2008. Accordingly, the Company will apply them beginning October 1, 2008. The new requirements cover only the information to be disclosed and will have no impact on the Company's financial results.

Goodwill and intangible assets

In February 2008, the CICA issued the new Section 3064, "Goodwill and Intangible Assets", which supersedes Section 3062, "Goodwill and Other Intangible Assets". The release of this new section led to the elimination of Section 3450, "Research and Development Costs", as well as the resulting modifications to certain recommendations of the CICA Handbook. The new section establishes standards for for-profit companies in the recognition, measurement, presentation, and disclosure of goodwill and intangible assets. This new section applies to fiscal years begun on or after October 1, 2008. Accordingly, the Company will apply them from this date. Management currently assesses the impact of applying this new section on the financial statements but feels that it is unlikely to have any impact on them.

International financial reporting standards

The CICA Accounting Standards Board (AcSB) has adopted a strategic plan to converge with the International Financial Reporting Standards (IFRS) for companies having accountability obligations. As the AcSB confirmed on February 13, 2008, the conversion requires companies that have accountability obligations to adopt the IFRS fully in 2011. The transition to the IFRS will apply to interim and financial statements for fiscal years begun on or after January 1, 2011. The Company will switch to the new standards according to the schedules established by these new rules and will closely monitor all changes resulting from this convergence. To date, the Company has not evaluated the impact of these new standards.

4 FINANCIAL INSTRUMENT DISCLOSURES

Fair value

The Company holds the following financial instruments:

i) Instruments held for trading designated as held for trading

Cash and equivalents as well as investments are recorded at fair value at each balance sheet reporting date. Any variation in the fair value is presented in net earnings in the period during which these variations occur. The fair value of equity instruments is based on the market price for the investments in question.

ii) Loans and receivables

The book value of receivables is close to their fair value because of their short-term maturity. After their initial fair value valuation, they are valued at the amortized cost using the effective interest method, which generally corresponds to coSt.

iii) Other financial liabilities

The book value of payables and accrued expenses is close to their fair value because of their short-term maturity. After their initial fair value valuation, they are valued at the amortized cost using the effective interest method, which generally corresponds to coSt.

Risk management policy

The Company's financial assets and liabilities expose it to various risks. The following analysis provides an assessment of the risks as at September 30, 2008, the date of the balance sheet.

Credit risk

Financial instruments that potentially subject the Company to credit risk consist primarily of cash and equivalents and accounts receivable. The Company's cash and equivalents are held with or issued by first-class financial institutions. Receivables mostly represent sums due from the federal and provincial government and partners. Therefore, Management considers the risk of non-performance on these instruments to be very minimal.

Liquidity risk

Liquidity risks are the risks that the Company would be unable to cope with its financial obligations at the required times or could only do so at excessive coSt. The Company finances its growth through the issuance of shares. One of Management's main financial objectives is to maintain an optimal level of liquidities by actively managing the exploration work to be performed. Considering the liquid resources at the Company's disposal, Management feels that the liquidity risks to which the Company is exposed are low.

Market risk

Market risk is the risk that the fair value of the investment held for trading would fluctuate due to market price variations.

5 INFORMATION REGARDING CAPITAL

In its capital management operations, the Company's objectives are to:

- Maintain financial flexibility in order to preserve its capacity to meet its financial commitments, including its potential obligations resulting from additional acquisitions
- Maintain a capital structure allowing the Company to encourage the financing of its growth strategy
- Optimize the use of its capital in order to offer its shareholders a good return on their investment

The Company defines its capital as follows:

- Equity capital
- Cash and equivalents

The Company's financial strategy is developed and adapted based on market conditions in order to maintain a flexible capital structure in compliance with the aforementioned objectives and to respond to the characteristics of the risks linked to the underlying assets. In order to maintain its capital structure, the Company, being in its early stages, is required to issue new shares.

The Company's capital management objectives, policies, and procedures have not changed since October 1, 2007.

The Company is currently meeting all of its financial commitments.

6 RECEIVABLES

	2008 $	2007 $
Partners	1,687,499	82,801
Consumer tax credits	258,528	28,952
Tax credits receivable	942,351	134,207
Interest receivable	–	13,041
Others	139,234	2,682
	3,027,612	261,683

Tax credits pertain to applications that have not yet been examined by the tax authorities.

7 INVESTMENTS

	2008 $	2007 $
Gastem Inc. 1,000,000 common shares (cost: $100,000 in 2008 and 2007) (Note 18)	1,040,000	520,000
Investment certificate, 3.6%, matured in March 2008	–	45,000
	1,040,000	565,000

8 FIXED ASSETS

	2008			2007
		$		$
	Cost	Accumulated depreciation	Net value	Net value
Leasehold improvements	18,387	5,205	13,182	10,752
Computer and office equipment	73,172	20,080	53,092	27,287
Rolling stock	170,302	42,013	128,289	29,108
	261,861	67,298	194,563	67,147

As part of its regular fixed asset replacement and improvement plan, the Company disposed of rolling stock.

9 OIL AND GAS PROPERTIES

	2008	2007
	$	$
Quebec		
Anticosti	205,793	–
Edgar	15,003	10,002
Gaspésia	257,770	188,660
Gaspé and Gastonguay	1,573,529	1,386,107
Marcel-Tremblay	6,633	–
Others	–	4,746
New Brunswick		
Dalhousie	31,424	21,199
	2,090,152	1,610,714

Gaspé and Gastonguay properties

On May 6, 2008, the Company signed a comprehensive agreement that amended a prior agreement with Junex pertaining to the Gaspé and Gastonguay properties. Under this agreement, Pétrolia acquired a 100% interest over an area of 6,043 km^2 on these properties, subject to royalties varying from 0.5% to 2.5% of the future production of hydrocarbons. Also, under this agreement, Pétrolia and Junex agreed to become 50/50 partners in a block of permits covering an approximate area of 291 km^2, with Junex acting as operator. On this same date, a second agreement defined a development area of 9 km^2 around the Pétrolia Haldimand No. 1 well, in which Pétrolia holds 45% interest, Junex holds 45%, and Gastem holds 10%. Some permits for these properties are subject to royalties of 5%.

Bourque project

During the fiscal year, the Company signed a $20M farmout agreement with the oil company Pilatus, which is initiated by the Company. Over the next five years, this company will be able to earn a 70% interest in the Bourque project's four permits by investing $20M into exploration and development work under the following terms:

- Over the first 18 months, the oil company had to carry out a seismic profile of a minimum amount of $2.5M to secure its right to participate in this agreement. This term was fulfilled as at September 30, 2008.
- During the first three years, it must invest a cumulative amount of $8M into exploration work in order to earn a 24% interest in the project.
- During the first five years, by investing a cumulative amount of $16M, it will be able to increase its interest to 48% and, by investing an additional $4M for a total of $20M, further increase its interest to 70%.

9 OIL AND GAS PROPERTIES (continued)

Anticosti property

During the fiscal year, Company acquired all rights belonging to Hydro-Québec on Anticosti Island. In consideration, a preferred royalty on future oil production will be paid to Hydro-Québec. Under this agreement, Pétrolia shares an interest with Corridor Resources Inc. varying between 25% and 50% in 35 exploration permits for the Island and acts as operator for most of them.

Saint-Simon property

The Company holds a 10% interest in the Saint-Simon well and the geological structure.

Under the commitments described in Note 14, the balance of the work to be performed is broken down as follows:

Properties	2009	2010	2011	2012
	$	$	$	$
Edgar	–	55,136	125,025	–
Marcel-Tremblay	35,770	49,748	66,330	82,912
Dalhousie	906,684	–	–	–

10 DEFERRED EXPLORATION EXPENSES

	September 30 2008 $	Additions $	September 30 2007 $
Quebec			
Anticosti	1,096,296	1,096,296	–
Edgar	230,883	25,418	205,465
Gaspésia	3,119,249	664,147	2,455,102
Gaspé and Gastonguay	8,267,463	3,845,357	4,422,106
Marcel-Tremblay	23,009	23,009	–
Saint-Simon	102,707	–	102,707
Others	–	(26,286)	26,286
New Brunswick			
Dalhousie	114,118	94,339	19,779
	12,953,725	5,722,280	7,231,445
Less			
Exploration subsidies and partner contributions			
Anticosti	356,084	356,084	–
Edgar	19,754	8,242	11,512
Gaspésia	262,075	208,477	53,598
Gaspé and Gastonguay	3,169,477	3,085,441	84,036
Marcel-Tremblay	7,526	7,526	–
Dalhousie	6,922	–	6,922
Others	–	(9,200)	9,200
	3,821,838	3,656,570	165,268
	9,131,887	2,065,710	7,066,177

10 DEFERRED EXPLORATION EXPENSES (continued)

	September 30 2007 $	Additions $	September 30 2006 $
Quebec			
Edgar	205,465	203,269	2,196
Gaspésia	2,455,102	985,444	1,469,658
Gaspé and Gastonguay	4,422,106	392,490	4,029,616
Saint-Simon	102,707	143	102,564
Others	26,286	26,286	
New Brunswick			
Dalhousie	19,779	19,779	–
	7,231,445	1,627,411	5,604,034
Less			
Exploration subsidies and partner contributions			
Edgar	11,512	11,512	–
Gaspésia	53,598	21,127	32,471
Gaspé and Gastonguay	84,036	84,036	–
Dalhousie	6,922	6,922	–
Others	9,200	9,200	–
	165,268	132,797	32,471
	7,066,177	1,494,614	5,571,563

11 LONG-TERM DEBT

	2008 $	2007 $
Loan, guaranteed by a rolling stock, repaid early	–	31,844
Portion failing due during the next fiscal year	–	11,694
	–	20,150

12 CAPITAL STOCK

Authorized

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

Issued

40,914,219 (2007 – 29,208,252) common shares.

Escrowed shares

As at September 30, 2008, no shares have been escrowed, (2007 – 1,409,658).

Stock-based compensation

The Company has a Stock Option plan under which it can grant options up to 10% of its issued and outstanding shares to its directors, officers, key employees, and suppliers on a continuous basis. The exercise price of each option corresponds to the market's price or discount price on the day preceding the allocation date. The maximum term of granted options may not exceed five years. The maximum number of shares that can be granted to any individual beneficiary is 5% of the total number of issued and outstanding shares as at the grant date minus the number of shares already reserved for issuance to that beneficiary for any other stock option.

During the fiscal year, the Company granted stock options. The fair value of each allocated option is calculated according to the Black-Scholes option pricing model, using the following assumptions:

	Stock options					Broker warrants
	2008			2007	2006	2008
	July	**March**	**February**	**June**	**October**	**June**
Risk-free interest rate	4.75%	5.75%	5.75%	6%	6%	4.75%
Expected volatility	90%	80%	80%	85%	85%	90%
Weighted expected life (year)	5	5	5	5	2	1.5
Dividend yield	Nil	Nil	Nil	Nil	Nil	Nil

Accordingly, the stock-based compensation cost was recorded as follows:

	2008 $	2007 $
Statement of income	668,775	148,770
Deferred exploration expenses	228,225	155,730
Share issuance expenses	394,970	–
Total	1,291,970	304,500

12 CAPITAL STOCK (continued)

The following table summarizes the outstanding stock options:

	2008		2007	
	Number of options outstanding	Weighted average exercise price $	Number of options outstanding	Weighted average exercise price $
Outstanding and exercisable, beginning of year	2,645,000	0.41	1,670,000	0.43
Granted	1,350,000	0.66	1,125,000	0.40
Exercised	(87,500)	0.40		
Expired	–	–	(150,000)	0.58
Outstanding and exercisable, end of year	3,907,500	0.58	2,645,000	0.41

Weighted average of fair values as at the allocation date:

	2008 $	2007 $
Stock options	0.66	0.40
Broker warrants	0.93	–

As at September 30, 2008, the outstanding options under the Plan amount to the following:

Weighted average exercise price $	Number	Weighted average remaining years	Expiration date
0.60	25,000	0.1	October 10, 2008
0.40	270,000	1.5	March 15, 2010
0.40	1,075,000	2.3	February 3, 2011
0.58	150,000	2.6	May 10, 2011
0.40	1,037,500	3.8	June 21, 2012
0.60	600,000	4.3	February 12, 2013
0.60	150,000	4.4	March 3, 2013
1.25	600,000	4.8	July 7, 2013

Warrants

As at September 30, 2008, the outstanding warrants are as follows:

Exercise price $	Number	Expiration date
1.00	1,750,000	April 26, 2009
1.00	3,000,000	July 10, 2009
1.50	3,756,665	December 6, 2009

13 FUTURE INCOME TAXES

The Company's effective tax rate differs from the combined statutory rate (federal and provincial). This difference is attributable to the following items:

	2008 $	2007 $
Loss before income taxes	(483,993)	(394,385)
Income tax at combined rate: 30.9%	(149,554)	(121,865)
Stock-based compensation	206,651	45,970
Revaluation of future tax debits and credits	300,877	(5,213)
Non-deductible expenses and others	12,900	8,858
Unrealized capital gain	(80,340)	(33,990)
	290,534	(106,240)

Future income tax debits and credits result from differences between the tax value and the book value of the following items:

	2008 $	2007 $
Future income tax debits:		
Deferred losses	(636,199)	(455,869)
Share issuance costs	(256,868)	(107,461)
Others	(12,542)	(6,366)
	(905,609)	(569,696)
Future income tax credits:		
Investments	145,230	64,890
Properties	30,871	30,871
Deferred exploration expenses	2,403,254	2,081,066
	2,579,355	2,176,827
Net future income tax credits recorded	1,673,746	1,607,131
Short-term future tax credit	291,187	41,034
Long-term net future tax credit	1,382,559	1,566,097
	1,673,746	1,607,131

As at September 30, 2008, the accumulated losses for future tax purposes, for which the tax benefits were recorded, amounted to $2,239,884 at the federal level and $1,769,925 at the provincial level. The Company may use the tax benefit resulting from the carry-over of these losses before:

	Federal $	Provincial $
2009	528	528
2010	3,180	3,180
2014	8,618	6,776
2015	351,319	287,294
2026	574,450	440,410
2027	648,473	514,153
2028	653,316	517,584

14 COMMITMENTS

Pursuant to the rules governing exploration permits granted by the Quebec Ministry of Natural Resources, the Company has committed to pay fees in the amount of $161,127 until 2012. The minimum payments due over the upcoming fiscal years are as follows:

2009	2010	2011	2012
$70,588	$78,905	$8,318	$3,316

Moreover, the Company must conduct annual statutory work on the lands covered by its permits. The minimum costs vary according to the age of the permits. The costs correspond to $0.50/hectare for the first year, increasing $0.50/hectare each subsequent year up to the fifth year, at which time the fee will be set to $2.50/hectare per year. The minimum work to be performed totals $942,454 in 2009, $104,884 in 2010, $191,355 in 2011 and $82,912 in 2012.

The Company has entered into leases until 2012 to rent offices from two companies, including a company in which one of its directors holds a minority intereSt. The residual amount of these leases, excluding escalation clauses, is $273,022.

The minimum payments required over the upcoming fiscal years are as follows:

2009	2010	2011	2012
$100,021	$100,021	$69,480	$3,500

15 CONTINGENCIES

In the past, the Company partially funded itself through the issuance of flow-through shares. The last issuance occurred in 2005. The Company has therefore fulfilled its commitments related to exploration work to be performed. However, although the Company has taken all necessary measures for this purpose, there is no guarantee that all of the funds spent by the Company for these actions will be declared acceptable by the tax authorities under an audit on their part. The rejection of certain expenses by the tax authorities could have negative tax consequences for the investors.

During the fiscal year, Revenue Quebec assessed capital taxes of $84,204 on the Company for fiscal years 2006 and 2007. Management disputed this assessment by issuing a notice of objection. Although Management believes that there is merit to its opposition, it is currently impossible to predict the outcome of this dispute with certainty. Accordingly, no provisions have been recorded for fiscal years 2006 and 2007 or the current fiscal year.

16 RELATED-PARTY TRANSACTIONS

Transactions were made with two companies whose main director holding a minority interest is also a director of Pétrolia inc.:

	2008	2007
	$	$
Salaries and fringe benefits	(16,445)	–
Travel	(1,069)	–
Maintenance and office supplies	(25,319)	–
Deferred exploration expenses	676,529	340,246
Promotion and entertainment	(1,045)	–
Telecommunications	(12,970)	–
Others	(76,408)	6,413

The account receivable from these companies as at September 30, 2008, was $54,696 (2007 balance due – $68,075).

Transactions were made with a director who works as a consultant for the Company:

	2008	2007
	$	$
Deferred exploration expenses	66,314	62,969

The balance due to this director as at September 30, 2008, was $18,492 (2007 – $5,769).

The Company made the following transactions with a company whose chief executive officer is the same for both companies:

	2008	2007
	$	$
Office supplies	3,600	4,680
Salaries and fringe benefits	245,156	191,823
Telecommunications	6,505	4,082

The balance due to this company as at September 30, 2008, was $63,039 (2007 – $55,159).

These transactions occurred in the normal course of business and are recorded at the exchange value, which is the amount of the consideration established and accepted by the related parties.

17 ADDITIONAL CASH FLOW INFORMATION

Items not affecting cash and equivalents related to financing and investing activities are as follows:

	2008 $	2007 $
Accounts receivable for deferred exploration expenses	(2,137,041)	(132,797)
Stock-based compensation related to share issuance costs	394,970	–
Stock-based compensation related to deferred exploration expenses	228,225	155,730
Accounts payable and accrued expenses related to deferred exploration expenses	2,258,513	(62,176)
Prepaid expenses for deferred exploration expenses	(37,509)	–
Future taxes for issuance cost	223,919	–

18 EVENT SUBSEQUENT TO THE BALANCE SHEET

On November 25, 2008, the equity investment closed at $0.62 per share. The value of the investment, which was $1,040,000 as at September 30, 2008, now totals $620,000.

BOARD OF DIRECTORS

André Proulx, MA
President and Chief Executive Officer

Clément Duchesne, MSc
Vice-President Finance and Secretary-Treasurer

Richard Boulay, PGeo
Director

Érick Adam, PEng
Director

Albert Wildgen, Attorney
Director

Arnold E. Baron, PEng
Director

Vincent Causse, Consultant
Director

Saeed Yousef, Economist
Director

AUDITORS

Mallette, LLP
Chartered Accountants
Rimouski

LEGAL COUNSEL

Miller Thomson Pouliot, LLP
Benoît Gascon, Attorney
Montréal

LISTED SHARES – TRANSFER AGENT

Computershare Trust Company of Canada
Montréal

SHARES LISTED

TSX Venture Exchange
Symbol: PEA

CAPITAL STOCK

40,914,219 common shares issued
as at September 30, 2008

The Annual Meeting of the Shareholders of Pétrolia will be held on Friday, March 20, 2009, at 10:00 a.m. at the Château Bonne Entente, 3400 chemin Sainte-Foy, Québec (Quebec).

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