PÉTROLIA

Leader en exploration pétrolière au Québec

FIRST QUARTER

Unaudited interim financial statements

for three-month periods ended December 31, 2011 and 2010

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UNAUDITED INTERIM FINANCIAL STATEMENTS

FOR THREE-MONTH PERIODS ENDED

DECEMBER 31, 2011 AND 2010

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Declaration Concerning the Interim Financial Statements

The administration prepared Pétrolia Inc.'s interim financial statements for the first quarter ended December 31, 2011 and the corresponding comparative data. No auditing firm has examined or audited these interim financial statements.

INTERIM FINANCIAL POSITION STATEMENTS

(Unaudited – in Canadian dollars)

	On December 31 2011 $	On September 30 2011 $	On October 1 2010 $
ASSETS			
Current			
Cash and cash equivalents (Note 6)	7,533,250	8,151,034	1,949,055
Receivables (Note 7)	2,057,935	4,617,371	2,920,900
Advance on exploration work	109,835	141,158	70,372
Inventories	54,977	61,619	-
Investments cashable during the next fiscal year (Note 8)	930,000	930,000	754,331
	10,685,997	13,901,182	5,694,658
Fixed Assets			
Exploration and evaluation assets (Note 9)	27,126,151	25,703,789	25,087,040
Fixed assets (Note 10)	944,821	931,779	213,159
	28,070,972	26,635,568	25,300,199
	38,756,969	40,536,750	30,994,857
LIABILITIES			
Current			
Suppliers and other creditors (Note 11)	2,430,499	1,469,518	822,339
Bank debt (Note 12)	-	2,243,310	2,243,310
Provision for site restoration (Note 13)	98,000	135,500	-
	2,528,499	3,848,328	3,065,649
Non-current			
Deferred lease inducements	117,121	112,273	-
Provision for site restoration (Note 13)	233,678	233,678	-
Deferred tax expenses (Note 25)	2,021,843	2,239,130	1,323,583
	2,372,642	2,585,081	1,323,583
	4,901,137	6,433,409	4,389,232
SHAREHOLDERS' EQUITY			
Capital stock (Note 14)	35,796,992	35,452,855	30,416,651
Other items of shareholders' equity	2,954,109	2,395,117	2,083,981
Deficit	(4,895,273)	(3,744,631)	(5,895,007)
	33,855,828	34,103,341	26,605,625
	38,756,969	40,536,750	30,994,857

Business continuity (Note 3)
Agreements, commitments and contingencies (Notes 4, 22 and 23)
Supplementary notes are an integral part of the interim financial statements

On behalf of the Board

(signed) *André Proulx*
Director

(signed) *Jacques L. Drouin*
Director

INTERIM COMPREHENSIVE INCOME STATEMENTS

(Unaudited – in Canadian dollars)

	For three-month periods ended December 31	
	2011 $	2010 $
REVENUE		
Rental revenue	2,994	-
Project income	16,276	-
	19,270	-
Administrative expenses (Appendix A)	909,056	438,318
OPERATION EXPENSES (Appendix B)	33,602	32,237
FINANCIAL INCOME AND EXPENSES (Appendix C)	(49,945)	16,798
	892,713	487,353
LOSS BEFORE OTHER ITEMS AND INCOME TAXES	(873,443)	(487,353)
OTHER ITEMS		
Gain (loss) on disposal of interest on some licences	(494,486)	5,386,457
INCOME (LOSS) BEFORE TAXES	(1,367,929)	4,899,104
Deferred tax expense	(217,287)	1,413,446
NET INCOME (NET LOSS) AND COMPREHENSIVE INCOME FOR THE PERIOD	(1,150,642)	3,485,658
BASIC NET EARNINGS (NET LOSS) PER SHARE	(0,022)	0,069
DILUTED NET EARNINGS (NET LOSS) PER SHARE	(0,022)	0,057

INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited – in Canadian dollars)

	Capital stock	Contributed surplus	Deficit	Total shareholders' equity
	$	$	$	$
Unaudited balance as at October 1, 2010	30,416,651	2,083,981	(5,895,007)	26,605,625
Stock-based compensation	-	79,539	-	79,539
Comprehensive income	-	-	3,485,658	3,485,658
Unaudited balance as at December 31, 2010	30,416,651	2,163,520	(2,409,349)	30,170,822
Unaudited balance as at September 30, 2011	35,452,855	2,395,117	(3 744 631)	34,103,341
Warrants exercised	344,137	-	-	344,137
Stock options exercised	-	-	-	-
Stock-based compensation	-	558,992	-	558,992
Expired stock options	-	-	-	-
Comprehensive net loss	-	-	(1,150,642)	(1,150,642)
Unaudited balance as at December 31, 2011	35,796,992	2,954,109	(4,895,273)	33,855,828

INTERIM CASH FLOW CHARTS
(Unaudited – in Canadian dollars)

	For three-month periods ended December 31	
	2011	**2010**
	$	**$**
OPERATIONAL ACTIVITIES		
Net income (net loss)	(1,150,642)	3,485,658
Non-cash items of income:		
Depreciation of fixed assets	62,354	14,845
Deferred tax expenses	(217,287)	1,413,446
Stock-based compensation	558,992	40,343
Depreciation of deferred rental incentives	4,848	
Gain on disposal of interest in certain licenses	-	(5,386,457)
	(741,735)	(432,165)
Net change in non-cash items related to operational activities:		
Receivables	(117,390)	(131,145)
Fees paid in advance	31,323	12,964
Inventories	6,642	-
Suppliers and other creditors	(18,072)	872,642
	(97,497)	754 296
FINANCING ACTIVITIES		
Capital stock issuance	344,136	-
Repayment of bank debt	2,243,310	-
	(1,899,174)	-
INVESTING ACTIVITIES		
Acquisition of fixed assets	(73,237)	(4,147)
Disposal of interest in certain licenses	-	6,690,000
Expenses for disposal of interest in certain licenses	-	(497,482)
Acquisition of oil and gas properties	(1,590,300)	(3,530)
Increase in deferred exploration expenses net of deductions	3,784,159	(704,077)
	2,120,622	5,480,764
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(617,784)	5,803,060
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	8,151,034	1,949,055
CASH AND CASH EQUIVALENTS, END OF PERIOD (Note 6)	7,533,250	7,752,115
CASH AND CASH EQUIVALENTS ARE MADE UP OF THE FOLLOWING:		
Cash	748,919	4,151,115
Guaranteed investment certificates (redeemable)	6,784,331	3,600,000
Money market fund	-	1,000
	7,533,250	7,752,115

1. INCORPORATING ACTS AND TYPES OF ACTIVITIES

The Company, incorporated under part 1A of the Companies Act of Quebec 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 212 Avenue de la Cathédrale, Rimouski, Quebec, G5L 5J2.

The oil and gas properties held by the Company are currently in the exploration phase. The Company's long-term profitability is partially contingent on the costs and success of the exploration and ensuing development programs. The Company has not yet established whether its properties include economically feasible reserves.

Financial statements from the reporting period ended December 31, 2011 (including comparative statements) were approved for publication by the Board of Directors on February 23, 2012.

2. ADOPTION OF IFRS STANDARDS AND FINANCIAL STATEMENT PRESENTATION

These financial statements were prepared by the Company's administration in accordance with International Financial Reporting Standards (IFRS) and in accordance with IAS 34, "Interim Financial Reporting." In addition, as this is the first time that the Company's comprehensive income and financial position statements are presented according to IFRS, these financial statements were prepared in accordance with IFRS 1 "First-Time Adoption of International Financial Reporting Standards."

These interim financial statements were prepared in accordance with accounting practices that the Company intends to adopt for financial statements for the fiscal year ended September 30, 2012. These accounting practices are based on IFRS standards that, according to the Company, will be in effect at that time. The accounting practices described in Note 4 were applied in the same way for all periods presented unless otherwise indicated.

The Company's financial statements had been previously prepared for the Company in accordance with Canadian Generally Accepted Accounting Principles (GAAP). The Company's date of transition from GAAP to IFRS is October 1, 2010. GAAP is different from IFRS in certain respects. While preparing these interim financial statements in accordance with IFRS, the administration modified certain recognition and measurement practices that it used previously to prepare financial statements in accordance with Canadian GAAP.

Comparative information from the 2011 fiscal year has been restated to account for these changes. The information to be provided through notes deemed important to understanding the Company's interim financial statements that would normally be provided in the annual financial statements prepared in accordance with IFRS are provided in Notes 26 and 27. This note also presents the reconciliation of shareholders' equity, net income and comprehensive income according to Canadian GAAP and IFRS, as well as the description of the effect of transitioning from Canadian GAAP to IFRS on these items.

3. BUSINESS CONTINUITY

The interim financial statements were established based on the assumption that the Company will continue as a going concern, which anticipates that the Company will be capable of realizing its assets and discharging its liabilities in the normal course of operations. Given that the Company has not yet found properties with economically viable hydrocarbon reserves, the Company has not generated income or cash flow from its operations to date. The Company's ability to continue operations depends on acquiring the new funding necessary to continue the exploration of its petroleum properties. Although the Company has succeeded in funding its exploration programs in the past, nothing guarantees that it will obtain more funding in the future. The Company has not yet determined if the reserves' oil properties are economically profitable.

The carrying amounts of assets and liabilities, revenues and expenses presented in the interim financial statements, as well as the classification system used, have not undergone adjustments that will be necessary if going concern assumptions are not appropriate, and these adjustments may be significant. The administration did not take these adjustments into account because it believes that the Company will continue as a going concern.

4. MAIN ACCOUNTING PRACTICES

Overview and first application of IFRS

The main accounting practices used for the preparation of these financial statements are included below. These accounting practices were used for all periods presented in the financial statements, except for when the Company applied some accounting practices, exemptions and exceptions for the transition to IFRS. Exceptions applied by the Company and the effects of the transition to IFRS are presented in Notes 26 and 27.

Basis for measurement

These financial statements were prepared according to the historical cost model, with the exception of some assets and liabilities measured at fair value, as required according to some specific IFRS standards.

Standards, amendments and interpretations of published standards that are not yet in effect and have not been adopted early by the Company

On the authorization date of these financial statements, new standards and interpretations of existing standards and new amendments have been published, but are not yet in effect and the Company has not adopted them early.

The administration anticipates that all pronouncements will be adopted into the accounting practices of the Company during the period beginning the effective date of each pronouncement. Some other new standards and interpretations have been published, but we do not expect that they will have a significant impact on the Company's financial statements.

IFRS 9, Financial Instruments (in effect as of January 1, 2013)

The International Accounting Standards Board (IASB) aims to replace IAS 39, "Financial Instruments: Recognition and Measurement." The standard that will replace it (IFRS 9) is being published in multiple phases. Currently, sections on recognition, classification, measurement and de-recognition of financial assets and liabilities have been published. These sections are in effect for annual periods beginning January 1, 2013. Other sections on impairment methodology and hedge accounting are still being developed. Management has not yet determined the effect that this new standard will have on the Company's financial statements. However, it does not anticipate adopting this new standard before all sections of the replacement project of IFRS 9 have been published and it can determine all of the changes' effects.

IFRS 13, Fair Value Measurement (in effect starting January 1, 2013)

This new standard aims to clarify the definition of fair value, to provide regulations on the measurement of fair value and to improve the requirements on reporting material related to the measurement of fair value.

Presentation of financial statements in accordance with IAS 1

Financial statements are presented in accordance with IAS 1, “Presentation of Financial Statements.” In accordance with IFRS 1, “First Application of International Financial Reporting Standards,” the Company is presenting three statements of its financial position in its first IFRS financial statements. For subsequent fiscal years, it will present two comparative fiscal years for the financial position statement when: i) it will use an accounting practice retroactively, ii) will make a retrospective restatement of its financial statements, or iii) reclassify items in its financial statements.

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.

Refundable tax credits

The Company is entitled to a resource tax credit of up to 35% of eligible exploration expenses incurred in Quebec. These tax credits are recognized by reducing exploration expenses incurred under IAS20 and are disclosed separately in the note on exploration and evaluation assets. Credits are recognized under the condition that the Company is reasonably certain that these credits will be received.

Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when contractual rights on cash flow from financial assets expire, or once financial assets and all significant risks and benefits are transferred. A financial liability is derecognized in case of extinguishment, termination, cancellation or expiry. Assets and liabilities are initially measured at fair value plus transaction costs, with the exception of financial assets and liabilities recognized at fair value through profit and loss that are initially measured at fair value. Financial assets and liabilities are hereafter measured as outlined below.

Currency translation

Monetary assets and liabilities are translated according to the effective exchange rate on the date of the financial position statement. Revenues and expenses denominated in foreign currencies are recorded at the exchange rate in effect on the transaction date. Exchange gains or losses are recognized in income.

Jointly controlled assets

The company carries out some petroleum and gas resource exploration in conjunction with third parties. These financial statements do not take into account the Company’s proportional participation in such operations.

Provision for site restoration

The Company records the estimated fair value of future obligations related to the provision for site restoration, with respect to oil and gas goods, as a liability for the period during which the latter is committed. Fair value is capitalized and depreciated during the same period as the underlying asset. The Company estimates the liability from estimated abandonment and restoration costs relating to its net investment in wells and facilities, including the schedule of estimated expenses that will be incurred to this end during future periods. This estimate is reviewed periodically and changes are recognized prospectively as an increase or decrease in liability. Changes in the net present value of the liability related to site restoration are recognized as accretion expenses calculated pro rata based on the time elapsed, and are recorded as expenses in the period's income. The actual expenses incurred when the liability is settled are charged as a liability no greater than the recorded liability.

Financial assets

For the purpose of future measurement, financial assets other than those designated as effective hedging instruments are classified in the following categories during initial recognition:

– Loans and debts:
– Financial assets at fair value through profit and loss.
– Held-to-maturity investments.
– Available-for-sale financial assets.

The category determines the future measurement practice and recognition either as income or as other items of comprehensive income of the resulting income and expenses. All income and expenses relating to financial assets recognized as income are presented in finance costs or finance income.

Loans and debts
Loans and debts are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After their initial recognition, they are valued at depreciated cost, applying the effective interest method, less any provision for impairment. Discounting is omitted where its effect is immaterial. Receivables are included in this category of financial instruments.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets that are classified as being held for trading or that meet certain conditions and are designated as being at fair value through profit or loss at initial recognition. Assets in this category are measured at fair value. Directly attributable transaction costs and changes in fair value are recognized in net income. Cash and cash equivalents and investments are included in this category.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities other than loans and debts. Investments are classified as being held-to-maturity if the Company has the intention and capacity to hold them to maturity. Held-to-maturity investments are measured subsequently at depreciated cost using the effective interest method. If objective evidence exists that the investment has lost value, determined through reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. All changes made to the carrying value of investments, including impairment, are recognized as net income. The Company holds no financial assets classified in this category.

Available-for-sale financial assets
Available-for-sale financial assets are non-derived financial assets that are designated as being included in this category or that do not qualify in any other financial asset category. Impairment losses are recognized in net income and reversals of impairment losses are recognized in other items of comprehensive income. All available-for-sale financial assets are measured at fair value. Gains and losses are recognized in other items of comprehensive income and are presented in the "Available-for-sale financial assets" reserve in shareholders' equity, with the exception of impairment losses and foreign exchange differences on monetary assets that are recognized in income. When the asset is disposed of or determined to be impaired, the cumulative gain or loss recognized in other items of comprehensive income is reclassified as income in financial income or expenses and is presented as a reclassification adjustment in other items of comprehensive income.

Interest calculated using the effective interest rate method and dividends are recognized as income in financial income. The Company holds no financial assets in this category.

Depreciation of financial assets
All financial assets except those at fair value through profit or loss are subject to impairment review at least at each closing date. Financial assets are impaired when there is objective evidence that a financial asset or a group of financial assets has been impaired.
Objective evidence may include:

- Significant financial difficulties experienced by the issuer or debtor.
- A breach of contract such as defaulting on the payment of interest or principal.
- The increasing probability of the debtor's bankruptcy or other financial restructuring.

Individually significant receivables are tested for impairment when they are past due or when other objective evidence is received that counterparty will default. Receivables that are not considered impaired individually are tested for impairment by group, which is determined by the sector of activity and region of counterparties and other known categories of collective credit risk. The percentage of impairment is thus based on the recent historical default rates of the counterparties in each group. The impairment of receivables is presented as income in other operating expenses.

Financial liabilities at depreciated cost

Financial liabilities at depreciated cost include accounts payable and accrued liabilities as well as bank debt. Accounts payable and accrued liabilities and bank debt are initially recorded at the amount that would have to be paid, minus cash discount if significant, aiming to reduce accounts payable to fair value. Subsequently, accounts payable and accrued liabilities and bank debt are recorded at net present value calculated using the effective interest method. If the payment is due within less than twelve months they are recorded as current liabilities. If not, they are recorded as non-current liabilities. Interest payments are presented in financial expenses.

Accounting policy for inventory

Inventories are measured at the lower of cost and net realizable value. The cost is determined on an average cost basis.

Basic and diluted earnings per share

Basic earnings per share is determined by dividing the profit or loss attributable to ordinary Company equity holders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the profit or loss attributable to ordinary Company equity holders as well as the weighted average number of common shares outstanding, to the effects of all dilutive potential ordinary shares. It must be taken into account that dilutive potential ordinary shares were converted to ordinary shares at the beginning of the period or on the date of issuance of the potential ordinary shares if it was a later date. To determine the diluted earnings per share, an entity shall assume the exercise of dilutive stock options and warrants. The assumed proceeds from these instruments shall be regarded as having been received from the issuance of ordinary shares at the average market price of ordinary shares during the periods presented. Diluted earnings per share are equal to basic earnings per share due to the anti-dilutive effect of stock options and warrants.

Cash and cash equivalents

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

Exploration and evaluation assets

Exploration and evaluation assets include costs incurred in the acquisition of petroleum rights and expenses related to the exploration and evaluation of oil and gas properties. These assets are recognized as fixed assets and are shown at cost less impairment, refundable tax credits, and refundable rights, contributions from partners and revenue from the evaluation of oil reservoirs.

Costs incurred prior to the acquisition of legal easements for exploration and evaluation are recognized on the income statement at the time of their incurrence.

Petroleum rights and expenses related to exploration and evaluation activities are capitalized in the cost of the asset, by property, until the technical feasibility and commercial viability of the extraction of oil or gas resources are demonstrated. Other income gained during the exploration and evaluation period are recognized as net income. No depreciation is charged during the exploration and evaluation phase. Capitalized costs include topographical, geological, geochemical and geophysical surveys, exploration drilling, sampling, activities related to the evaluation of technical feasibility and the commercial viability of the extraction of a mineral resource and the issuance of shares related to exploration and evaluation assets.

If it has been established that a project's viability is not guaranteed or if a project has been abandoned, the capitalized amount will be reduced to its recoverable amount and the goodwill will be recognized immediately in net income. If the technical feasibility and commercial viability of the extraction of an oil or gas resource can be demonstrated, the exploration and evaluation assets related to the oil or gas property will thus be transferred to the "*Oil and Gas Assets under Construction*" category. Before the transfer, exploration and evaluation assets must undergo an impairment test, and all impairment must be recognized in the income statement before reclassification.

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

Although the Company has taken measures in accordance with industry practices for the current phase of the exploration of properties in order to secure titles to petroleum property and properties in which it has a financial interest, these procedures do not guarantee the validity of the title to property. Titles to property of petroleum properties may be subject to unregistered prior agreements and non-compliance with regulatory provisions.

Fixed assets

Fixed assets are recorded at historic cost, less any accumulated depreciation and any accumulated impairment losses. The historic cost takes into account all expenses directly attributable to acquisition. Recognition of costs in the carrying amount of a fixed asset ceases when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by the administration. They 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 equipment	Declining	20%
Telecommunications	Declining	30%
Rolling stock	Declining	30%
Reservoirs	Declining	20%
Site	n/a	n/a

Estimates regarding material residual value, useful life and method of depreciation are reviewed at the end of each fiscal year, taking into account the nature of assets, intended use and technology developments. Each part of a fixed asset that has a significant cost in comparison to the total cost of the property is depreciated separately.

Each period's depreciation expenses are recorded in income, except for certain fixed assets related to exploration activities that have depreciation expenses recognized in the carrying value of an exploration asset when they are used in specific exploration projects. The depreciation of an asset ceases when it is classified as held for sale or when it is derecognized. Consequently, depreciation does not cease when the asset is not being used or out of service, unless the asset is completely depreciated.

Fixed assets are derecognized when they are retired or when no future economic benefit is expected from their use or retirement.

Gain or loss resulting from a fixed asset's retirement corresponds to the difference between available revenue and the carrying value of the asset, and is recognized as net income and shown separately in other income or other expenses.

Operating lease

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 fees, like those relating to maintenance and insurance, are recognized as expenses as they are incurred.

Depreciation 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, certain assets are individually submitted to an impairment test while others are tested at the level of the cash-generating unit. Managers measure the depreciation of exploration and evaluation assets, property by property, with each property representing a potential cash-generating unit. All individual assets or cash-generating units undergo an impairment test when events or changes of circumstance indicate that their carrying value may not be recoverable. In addition, if the technical feasibility and the commercial viability of the extraction of a petroleum resource can be demonstrated, exploration and evaluation assets related to the corresponding oil and gas property must undergo an impairment test before being transferred to fixed assets. An impairment loss is recognized for the amount by which the asset's carrying amount or cash-generating unit exceed its recoverable amount. An asset or cash-generating unit's recoverable amount is the higher of its fair value less costs to sell and its value in use. To determine its value in use, the administration estimates expected future cash flows from each asset or cash-generating unit, and then determines a suitable interest rate in order to calculate the present value of future estimated cash flows. Impairment is recognized immediately in net income and is offset against the individual asset or allocated pro rata to assets 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 can be reversed if the recoverable amount of an asset or cash-generating unit exceeds its carrying value.

Provisions, contingent liabilities and contingent assets

Provisions are recognized when present obligations arising from past events will probably lead to an outflow of resources embodying economic benefits for the Company and that the amounts can be reliably estimated. The timing or amount of outflow can be uncertain. A present obligation results from the existence of legal or constructive obligations resulting from past events such as litigation, from decommissioning, restoration and similar liabilities, or onerous contracts.

The evaluation of provisions corresponds to estimated expenses required to settle the present obligation, based on the most reliable evidence available on the reporting date, including risks and uncertainties related to the present obligation. When a large number of similar obligations exist, the probability that an outflow of resources will be required to settle the obligation is determined by considering the class of obligations as a whole. Provisions are discounted when the time value of money is material. A payment that the Company is nearly certain will be received from a third party related to the obligation is recognized as a separate asset. However, this asset must not be greater than the amount of the associated provision. Provisions are reviewed at every reporting date and adjusted to reflect the current best estimates at that date.

When a possible outflow of resources embodying economic benefits resulting from a present obligation is considered to be unlikely or of a weak probability, no liability is recognized unless it was assumed in a business obligation. Probable inflow of economic benefits for the Company that do not yet meet the recognition criteria of an asset are treated as contingent assets.

The Company's activities are subject to government laws and regulations concerning the protection of the environment. Environmental consequences, be it the amount, timing or impact, are difficult to identify. The Company currently operates in accordance with laws and regulations currently in effect. All payments resulting from the restoration of petroleum properties, where appropriate, will be recognized as petroleum property costs when a reasonable estimate can be made.

Staff benefits

The cost of short-term staff benefits (those that are payable within twelve months after services rendered, such as paid vacation and sick leave, bonuses and certain non-monetary benefits such as medical care) is recognized in the fiscal year when the services have been rendered and is not discounted.

Royalties

Royalties on net proceeds of hydrocarbon sales are not generally recognized at the acquisition of a petroleum property since they are considered to be contingent liabilities. Royalties are not recognized except for when they are probable and will be measured with significant reliability.

Income tax

Income tax expenses correspond to deferred and current tax that is not recognized in other items of comprehensive income or directly in shareholders' equity. Current tax assets or liabilities include amounts payable to tax authorities or amounts due to be recovered from said authorities for the current period and from amounts that were not settled by the previous reporting date. The calculation of tax payable is based on the tax rate and tax laws enacted or substantively enacted at the end of the reporting period.

Deferred tax is calculated using the liability method on temporary differences between the carrying value of assets and liabilities and their tax base. Deferred income tax assets or liabilities are calculated, without discount, according to the tax rates expected to be applied during their respective implementation periods, when the rates are enacted or substantively enacted before the reporting date. Deferred income tax assets are recognized to the extent that it is probable that they will be used to offset future taxable income. Note 5 deals with the administration's assessment of the probability of future taxable income that will be used to offset deferred tax assets. Deferred tax assets or liabilities are offset only when the Company has the right and intention to offset current tax assets or liabilities from the tax authority itself. Changes in deferred tax assets and liabilities are recorded in income as deferred tax, unless if they concern items that were recognized in other items of comprehensive income or directly in shareholders' equity, in which case the corresponding deferred tax is also recognized in other items of comprehensive income or shareholders' equity, respectively. Under tax legislation related to provisions on flow-through investments, the Company is held to give up deductions for exploration and evaluation expenses to the benefit of investors. When the Company has given up income tax deductions and has incurred eligible expenses, the sale of tax deductions is recognized in income as a reduction of deferred tax and a future tax liability is recognized for the temporary difference between the carrying amount of eligible expenses capitalized in assets and its tax base.

SHAREHOLDERS' EQUITY

Capital stock
Capital stock is presented at issuing value. Costs related to the issuance of shares or stock options are shown in shareholders' equity as a deduction from the proceeds of issue, net of tax.

Flow-through investments
The issuance of flow-through shares is recognized as a compound financial instrument. The financial liability represents the obligation to flow tax deductions back to investors. Proceeds from shares issued as flow-through investments are allocated to flow-through shares issued and to liabilities through the residual method. The proceeds are then allocated to shares based on the stock exchange price at the time of issuance and the residual amount is allocated to the liability, which is reversed in income as recovery of deferred tax when eligible expenses are incurred.

Contributed surplus
The contributed surplus includes expenses associated with stock options and broker warrants until the options are exercised.

Retained earnings (Deficit)
Retained earnings (deficit) include all non-distributed gains and losses from the current fiscal year and prior fiscal years.

Share-based payments

The Company manages a direct equity-settled share-based payment system for the administration, staff members and consultants who are eligible. The system does not include cash settlement options. The Company occasionally issues broker warrants.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair value, unless their fair value cannot be reliably measured. If the Company cannot reliably measure the fair value of goods and services received, it must measure the value indirectly by reference to the fair value of shareholders' equity instruments. When a staff member is remunerated through share-based payments, the fair value of the staff member's services rendered is determined indirectly by reference to the fair value of shareholders' equity instruments granted. This fair value is measured at grant date.

Share-based payments, not including broker warrants, are ultimately recognized in income as an expense or capitalized as exploration and evaluation assets according to the nature of the payment and the counterparty is credited to contributed surplus in shareholders' equity. Share-based payments to brokers in the case of equity financing are recognized as issue costs for shareholders' equity instruments and the counterpart is credited to contributed surplus in shareholders' equity. Each tranche of an award with a phased vesting period is considered to be a distinct award with its own vesting date and its own fair value. If vesting periods or 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 part of assumptions on the number of options that, depending on expectations, will become exercisable. Estimations are then revised when there are indications that the number of share options expected to vest differs from previous estimates. All cumulative adjustment prior to vesting is recognized in the current fiscal year. No adjustment is made to charges recorded in previous fiscal years if the number of share options that were ultimately vested differs from that which was expected at vesting.

When exercising a share option, proceeds received less directly attributable transaction costs are applied to capital stock. Accumulated expenses related to stock options recognized as contributed surplus are transferred to shareholders' equity.

Segment information

In accordance with IFRS 8, "Operating segments," the Company must present and divulge segment information according to information regularly examined by the President and Board of Directors with an aim to determine the Company's performance. The Company has determined that it only has one operational segment, the exploration and evaluation segment.

5. JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

When preparing financial statements, the administration draws a number of judgements, estimates and assumptions regarding the recording and measurement of assets, liabilities, revenue and expenses.

Actual results may differ from judgements, estimates and assumptions drawn by the administration and they are rarely identical to estimated results. Significant information on judgements, estimates and assumptions that have the greatest effect on the recording and measurement of assets, liabilities, revenue and expenses is presented hereafter.

Depreciation of evaluation and exploration assets

The determination of impairment and reversal of impairment indicators as well as the establishment of recoverable amounts in the event that an impairment test must be performed entails a judgement. If there is an indication of the impairment or reversal of impairment of an asset or cash-generating unit, an estimate of the recoverable value is performed and the impairment or reversal of impairment is recognized to the extent that the carrying value of the asset exceeds its recoverable amount. The recoverable amount of an asset is determined as being the higher of its fair value less costs to sell and its value in use.

For each property, the administration determines if facts and circumstances could be indicators of impairment or reversal of impairment. The considered facts and circumstances include but are not limited to the following:

(a) The period during which the entity has the right to explore a specific zone has expired during this period or will expire in the near future, and it has not foreseen its renewal.

(b) Significant future exploration and evaluation expenses for petroleum resources in the specific zone are neither outlined in the budget, nor planned.

(c) The exploration and evaluation of petroleum resources in the specific zone have not led to the discovery of commercially viable quantities of petroleum resources and the entity has decided to cease such activities in the specific zone.

(d) Sufficient data exists to the effect that, while it may be probable that a development in a specific zone will continue, the carrying value of the exploration and evaluation asset is unlikely to be recovered in full following the successful development or by sale. When it has been determined that an indicator of impairment or reversal of impairment exists, the administration must measure the recoverable value of the asset or cash-generating unit, and to do so, the administration draws assumptions relating to future events and circumstances.

Assumptions are based on the Company’s exploration and evaluation plan that considers whether the results of exploration activities justify additional investments, if the Company’s interest in the oil and gas rights have been confirmed, if the Company is capable of securing necessary funding to complete the development and future profitable production and if the disposal of properties will be made at an amount greater than the carrying value. Actual results may differ and give rise to significant adjustments to the Company’s assets during the following fiscal year.

No impairments or reversal of impairments were recorded for the periods under consideration.

Deferred tax

The measurement of the probability of future taxable income entails a judgement. A deferred tax asset is recognized to the extent that it is probable that taxable income will be available as a reduction in which deductible temporary differences as well as the carrying forward of unused tax credits and unused tax losses can be charged.

Business continuity

The measurement of the Company’s capacity to achieve its strategy through the financing of future needs through working capital involves passing judgement. More ample information concerning business continuity is presented in Note 3.

Share-based payments

To estimate expenses from share-based payments on shares and broker warrants, an appropriate measurement model must be selected and necessary data for the model must be chosen. The Company has estimated the volatility of its shares as well as the probable lifetime and fiscal year of options granted. The model used by the Company is the Black-Scholes measurement model.

Provisions and contingent liabilities

Judgement is used to determine if a past event has created a liability that should be recognized in financial statements or should be presented as a contingent liability. Quantifying these liabilities entails judgements and estimations. These judgements are based on a number of factors, such as the nature of the complaint or conflict, the legal procedures and the potential amount outstanding, the legal advice obtained, past experience and the probability of the realization of a loss. A number of these factors are sources of uncertainty concerning estimates.

Technical feasibility and commercial viability of exploration and evaluation assets

The decision concerning the technical feasibility and commercial viability of exploration and evaluation assets entails a certain number of assumptions, such as estimated reserves, forecasts of resource prices, expected production volumes and discount rates, which are all subject to significant future changes. The Company has determined that no properties have passed the stage of technical feasibility and commercial viability.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following items:

	On December 31 2011 $	**On September 30 2011 $**	**On October 1 2010 $**
Bank balances and cash in hand	1,678,919	695,699	448,055
Guaranteed investment certificates	5,854,331	7,454,331	1,500,000
Money market fund	-	1,004	1,000
Less: cash held for exploration (1)	-	-	-
Cash and cash equivalents	7,533,250	8,151,034	1,949,055

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

On December 31, 2011, cash and cash equivalents included guaranteed investment certificates with interest between 1.75% and 2.4% (1.75% and 2.4% on September 30, 2011 and 1.6% on October 1, 2010), expiring between December 22, 2012 and May 8, 2013. These instruments are cashable at any time without penalty.

7. RECEIVABLES

	On December 31 2011 $	On September 30 2011 $	On October 1 2010 $
Partner	1,190,165	981,613	-
Input tax credits	174,740	41,847	24,210
Tax credits receivable	583,520	3,318,935	2,816,842
Interest receivable	13,714	114,763	2,512
Others	95,796	160,213	77,336
	2,057,935	4,617,371	2,920,900

Tax credits 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.

8. INVESTMENT

	For three-month periods ended December 31	
	2011 $	2010 $
Guaranteed investment certificate, 1.68%, cashable July 2011 and expiring July 2012		530,000
Guaranteed investment certificate, 1.60%, cashable any time, expiring September 2012		224,331
Guaranteed investment certificate, 2.40%, cashable July 2011 and expiring July 2012	930,000	
	930,000	754,331

9. EXPLORATION AND EVALUATION ASSETS

OIL AND GAS PROPERTIES

	September 30 2011 $	Write-offs $	Additions $	December 30 2011 $
Quebec				
Anticosti	296,297	-	7,145	303,442
Gastonguay	664,398	-	-	664,398
Gaspésia-Edgar-Marcel-Tremblay	404,933	-	-	404,933
Gaspé[1]	1,635,540	-	1,590,466	3,226,006
New Brunswick				
Dalhousie	146,837	(7,311)	-	139,526
Oil and gas property totals	3,148,005	(7,311)	1,597,611	4,738,305

EXPLORATION EXPENSES

	September 30 2011 $	Write-offs $	Additions $	December 30 2011 $
Quebec				
Anticosti	6,341,925	-	21,065	6,362,990
Gastonguay	74,638	-	62	74,700
Gaspésia-Edgar-Marcel-Tremblay	3,730,267	-	16,053	3,746,320
Gaspé	2,450,597	-	35,433	2,486,030
Bourque project	3,668,983	-	22,993	3,691,976
Haldimand project	11,198,581	-	1,003,277	12,201,858
Tar Point No. 1 project	4,955,679	-	268,883	5,224,562
New Brunswick				
Dalhousie	1,143,494	(487,175)	200,217	856,537
	33,564,164	(487,175)	1,567,984	34,644,973
Less:				
Exploration subsidies and partner contributions				
Anticosti	2,280,008	-	11,269	2 291,277
Gastonguay	18,796	-	-	18,796
Gaspésia-Edgar-Marcel-Tremblay	411,354	-	4,209	415,563
Gaspé	550,176	-	15,870	566,046
Bourque project	3,060,535	-	7,320	3 067,855
Haldimand project	3,667,265	-	951,739	4 619,004
Tar Point No. 1 project	796,565	-	236,340	1,032,905
Dalhousie	6,922	-	-	6,922
	10,791,621	-	1,226,747	12,018,368
Income from evaluation of oil reserves:				
Gaspé				
Haldimand project	216,759	-	22,000	238,759
Total exploration fees	22,555,784	(487,175)	319,237	22,387,846

Summary as at December 31, 2011	September 30 2011 $	Write-offs $	Additions $	December 30 2011 $
Properties	3,148,005	(7,311)	1 597,611	4,738,305
EXPLORATION EXPENSES	22,555,784	(487,175)	319,237	22,387,846
Exploration and evaluation assets	25,703,789	(494,486)	1,916,848	27,126,151

OIL AND GAS PROPERTIES

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

EXPLORATION EXPENSES

	October 1 2010 $	Write-off $	Additions $	September 30 2011 $
Quebec				
Anticosti	5,305,277	-	1,036,648	6,341,925
Gastonguay	73,473	-	1,165	74,638
Gaspésia-Edgar-Marcel-Tremblay	3,531,433	-	198,834	3,730,267
Gaspé	2,264,806	-	185,791	2,450,597
Bourque project	3,580,147	-	88,836	3,668,983
Haldimand project	9,383,853	-	1,814,728	11,198,581
Tar Point No. 1 project	4,699,028	-	256,651	4,955,679
New Brunswick				
Dalhousie	1,111,708	-	31,786	1,143,494
	29,949,725	-	3,614,439	33,564,164
Less:				
Exploration subsidies and partner contributions				
Anticosti	1,930,632	-	349,376	2,280,008
Gastonguay	18,415	-	381	18,796
Gaspésia-Edgar-Marcel-Tremblay	341,818	-	69,536	411,354
Gaspé	483,228	-	66,948	550,176
Bourque project	3,027,548	-	32,987	3,060,535
Haldimand project	2,170,519	-	1,496,746	3,667,265
Tar Point No. 1 project	626,494	-	170,071	796,565
Dalhousie	6,922	-	-	6,922
	8,605,576	-	2,186,045	10,791,621
Income from evaluation of oil reserves:				
Gaspé				
Haldimand project	109,738	-	107,021	216,759
Total exploration expenses	21,234,411	-	1,321,373	22,555,784

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

(1)
Properties with the reference (1) are subject to royalties in the case of eventual production. To date, the Company has satisfied all of its obligations and only future or eventual obligations and particular transactions of the fiscal year are described hereafter.

Gaspé properties

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 payment varying from 0.5% to 2.5% on the future production of hydrocarbons. In June 2010, the Company carried out an asset exchange increasing its interest to 100% in all Gaspé leases, a 150 km^2 territory, with the exception of a 9 km^2 zone in which its interest is at 64% (Haldimand property). On December 20, 2010, the Company proceeded to sign definitive agreements for the sale of 50% of interests in the Haldimand discovery as well as in 13 leases surrounding this discovery to Québénergie Inc. (subsidiary of Investcan) for the sum of $15,190,000. A sum of $6,690,000 was paid in cash and $8,500,000 in exploration work will be carried out by Québénergie inc. over the next two years.

Haldimand property

On May 6, 2008, a second agreement delineated a development area of 9 km^2 around the Pétrolia Haldimand No. 1 well over which Pétrolia holds a 45% interest, Junex holding 45% and Gastem 10%. Certain licences of these properties are subject to royalty payments of 5%. Under an amendment to the original agreement signed July 22, 2009, Pétrolia has become the operator of all the development area of 9 km^2. On October 1, 2009, Pétrolia proceeded to acquire all of Gastem's interest. Following its decision to not participate in the drilling of a second well, Junex saw its participation lower by 9%. After signing definitive agreements for the sale of 50% of interests in the discovery of Haldimand, Pétrolia's interest in Haldimand was thus 32%, Québenergé's 32% and Junex held 36% of the remaining interest.

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

Bourque property

The Company signed a $20 M farmout agreement with the petroleum Company Pilatus Energy Canada. This company could have gained, over the course of the next five years, an interest of 70% in the four licences of the Bourque project by investing an amount up to $20 M in exploration and development work.

Unfortunately, the difficult economic situation in 2009 prevented Pilatus from meeting the obligations stipulated in the agreement signed with Pétrolia. By joint accord, the parties agreed to terminate the partners' obligations stipulated in the initial agreement for an interest of 5% in the project attributed to Pilatus.

Pétrolia has, therefore, actively resumed its efforts to find a new partner for the development of this project.

Anticosti property

The Company has acquired all of the rights belonging to Hydro-Québec on Anticosti Island. In return, a priority fee on future oil production will be paid to Hydro-Québec. Under this agreement, Pétrolia shares with Corridor Resources Inc. an interest varying between 25% in 6 leases and 50% in 29 exploration leases on the island and acts as an operator over most of the island. In June 2010, the Company participated in the drilling of three exploration wells and extracted a core sample in order to evaluate the potential of the McCasty formation as a shale gas reservoir. Following the acquisition of core sample analysis results, the Company anticipates undertaking valuation work in order to better estimate the petroleum potential of Anticosti Island.

10. FIXED ASSETS

	Leasehold improvements	Office equipment	Rolling stock	Reservoirs	Sites	Total
	$	$	$	$	$	$
Gross carrying value						
Balance on October 1, 2011	565,179	266,809	236,187	115,739	75,434	1,259,348
Additions	12,304	5,783	-	57,309	-	75,396
Provisions	-	-	-	-	-	-
Balance on December 31, 2011	577,483	272,592	236,187	173,048	75,434	1,334,744
Accumulated depreciation						
Balance on October 1, 2011	65,807	96,046	157,594	8,122	-	327,569
Retirement	-	-	-	-	-	-
Depreciation	39,642	10,469	5,894	6,349	-	62,354
Balance on December 31, 2011	105,449	106,515	163,488	14,471	-	389,923
Carrying value on December 31, 2010	472,034	166,077	72,699	158,577	75,434	944,821
Carrying value on September 30, 2011	499,372	170,763	78,593	107,617	75,434	931,779

	Leasehold improvements	Office equipment	Rolling stock	Reservoirs	Sites	Total
	$	$	$	$	$	$
Gross carrying value						
Balance on October 1, 2010	18,387	160,040	236,187	-	-	414,614
Additions	-	4,146	-	-	-	4,146
Provisions	-	-	-	-	-	-
Balance on December 31, 2010	18,387	164,186	236,187	-	-	418,760
Accumulated depreciation						
Balance on October 1, 2010	16,831	60,713	123,911	-	-	201,455
Retirement	-	-	-	-	-	-
Depreciation	583	5,839	8,421	-	-	14,843
Balance on December 31, 2010	17,414	66,552	132,332	-		216,298
Carrying value on December 31, 2010	973	97,633	103,855	-	-	202,461
Carrying value on October 1, 2010	1,566	99,327	112,276	-	-	213,159

11. SUPPLIERS AND OTHER CREDITORS

	On December 31 2011	On September 30 2011	On October 1 2010
	$	$	$
Trade and other payables	1,897,507	895,924	608,887
Accrued liabilities	526,435	570,022	209,357
Related parties (Note 19)	6,557	3,572	4,095
	2,430,499	1,469,518	822,339

12. BANK DEBT

	On December 31 2011	On September 30 2011	On October 1 2010
	$	$	$
Bank loan, in the authorized amount of $2,500,000, bearing interest at Caisse Centrale Desjardins prime rate plus 1%. The bank loan is secured with a $2,500,000 mortgage on the universality of the Company's current and future claims and receivables, with a first charge on refundable tax credits and future tax credits, as well as an 80% surety from Investissement Québec. The capital repayment was carried out during the first quarter.			
	-	2,243,310	2,243,310

13. PROVISION FOR SITE RESTORATION

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

On December 31, 2011, the future estimated total required to settle obligations related to site restoration, indexed at 3.5%, reached $331,678. A tranche of $98,000 of this obligation will be settled during the fiscal year. The total future amount was discounted using the weighted average rate of 5.25%, according to a varying payment schedule from 1 to 30 years. The total undiscounted amount of the estimated cash flow required to settle this obligation is $398,500.

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

	On December 31 2011	On September 30 2011	On October 1 2010
	$	$	$
Balance, beginning of period	-	-	-
Liabilities incurred	331,678	369,178	-
Balance, end of period	331,678	369,178	-
Tranche of liability to be settled during the following fiscal year	98,000	135,500	-
	233 678	233,678	-

14. CAPITAL STOCK

Authorized

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

Issued	**For the quarter ended December 31, 2011**		**For the fiscal year ended September 30, 2011**	
	Number of shares	Amount	Number of shares	Amount
		$		$
Balance, beginning of period	54,579,477	35,452,855	50,067,287	30,416,651
Shares issued:				
Debt retirement	-	-	75,000	33,750
Warrants exercised	264,721	344,137	3,878,440	4,505,472
Exercise of stock options	-	-	558,750	487,748
Future taxes				10,068
Issue expenses				(834)
Balance, end of period	54,844,198	35,796,992	54,579,477	35,452,855

Warrants

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

	For the quarter ended December 31, 2011		For the fiscal year ended September 30, 2011	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
		$		$
Balance, beginning of period	264,721	1.30	10,246,493	1.23
Exercised	(264,721)	1.30	(3,878,440)	1.15
Expired	-	-	(6,103,332)	1.27
Balance, end of period	-	-	264,721	1.30

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

	For the quarter ended December 31, 2011		For the fiscal year ended September 30, 2011	
Expiry date	Number of warrants	Exercise price	Number of warrants	Exercise price
		$		$
December 4, 2011	-	-	264,721	1.30

15. RENTAL CONTRACT

	Minimum lease payments due		
	Less than 1 year	1 to 5 years	Total
	$	$	$
December 31, 2011	290,408	940,428	1,230,836
September 30, 2011	275,306	1,009,239	1,284,545
October 1, 2010	81,186	3,500	84,686

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

Lease payments recognized as expenses during the recording period total $32,174 ($16,836 in 2010). This amount represents minimum lease payments. No sublease or contingent rent payment was made. An amount of $2,994 ($0 in 2010) 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.

16. STAFF REMUNERATION

Expenses related to staff benefits

Expenses related to staff benefits is analyzed as follows:

	On December 31 2011	On September 30 2011
	$	$
Salaries	443,789	1,592,822
Share-based payments	558,992	500,208
	1,002,781	2,093,030
Less: salaries capitalized in exploration and evaluation assets	347,575	917,010
Expenses related to staff benefits	655,206	1,176,020

Stock-based compensation

The Company has a Stock Option plan that allows it to grant a maximum of 10% of the shares issued to its directors, officers, key employees, and suppliers on a continuous basis. The exercise price of each option corresponds to the market price or discounted market price on the day before the option was granted. Granted options cannot last more than five years. Rights are acquired upon the granting of the options for directors, and over a period of three years for other participants.

The total of share-based payments will be settled as shareholders' equity instruments. The Company has no legal or constructive obligation to repurchase or settle options.

Company stock options are as follows for the reporting periods considered:

	For the quarter ended December 31, 2011		For the fiscal year ended September 30, 2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		$		$
Outstanding options, beginning	3,276,250	0.84	2,965,000	0.64
Granted	1,266,000	1.52	1,495,000	0.94
Exercised	-	-	(558,750)	0.53
Expired	-	-	(625,000)	0.40
Outstanding, end	4,542,250	1.03	3,276,250	0.84
Exercisable	2,775,250	0.91	2,198,750	0.80

The weighted average price of the share on the exercise date rose to 1.75% on September 30, 2011.

The following table resumes information related to stock options on December 31, 2011:

Options outstanding

Number of options	Exercise price	Time to maturity	Expiration date
	$	years	
21,250	0.74	0.4	May 21, 2012
547,500	0.40	0.5	June 21, 2012
400,000	0.60	1.1	February 12, 2013
125,000	0.60	1.2	March 3, 2013
427,500	1.25	1.5	July 7, 2013
120,000	0.74	2.4	May 21, 2014
270,000	0.89	3.1	February 25, 2015
790,000	0.50	3.9	December 8, 2015
75,000	1.31	4.2	February 25, 2016
500,000	1.69	4.4	May 18, 2016
1,266,000	1.52	4.9	December 4, 2016

The following table resumes information related to stock options on September 30, 2011:

Options outstanding

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

The weighted average fair value on the grant date of stock options during the 2011 fiscal year was established at $0.85 per option ($0.65 for the 2010 fiscal year).

During the period, the Company granted stock options, with the fair value of each allocated option calculated using the Black-Scholes option pricing model and the following assumptions:

	December 2011	**May 2011**	**February 2011**
Price of share on the granting date	1.52	1.69	1.31
Risk-free interest rate	3%	3%	3%
Average volatility expected	91%	94%	94%
Lifetime granted (years)	1-5	5	5
Rate of return of shares	Nil	Nil	Nil

The expected underlying volatility was determined in relation to the historical data of the Company's shares from the five last years beginning on the granting date.

Accordingly, the stock-based compensation was distributed as follows:

	December 2011	May 2011	February 2011
	$	$	$
Statement of income	469,741	153,625	71,400
Deferred exploration expenses	89,251	7,125	-
Total	558,992	160,750	71,400

17. FINANCIAL INCOME

Financial income from the reporting periods presented is detailed as follows:

	On December 31 2011	On December 31 2010
	$	$
Interest income from cash and cash equivalents	42,322	6,522
Interest income from receivables	16,897	-
Financial income	59,219	6,522

18. EARNINGS PER SHARE

Basic earnings per share are calculated from the fiscal year's income divided by the weighted average number of common shares outstanding for the period. In calculating diluted earnings per share, potential common shares, such as certain options and certain warrants, were not taken into consideration because their conversion would have decreased the loss per share and thus had an anti-dilutive effect.

Basic and diluted earnings per share were calculated with net income as a numerator, meaning that no adjustment to income was necessary.

	On December 31 2011	On September 30 2011
Net income	($1,150,642)	$2,160,668
Base weighted average number of common shares	52,363,695	51,249,243
Base net earnings from common shares	(0.022)	0.042
Weighted average number of diluted common shares	n/a	52,590,389
Diluted net earnings per common share	n/a	0.041

19. TRANSACTIONS BETWEEN RELATED PARTIES

The Company's related parties include other related parties and key executives as explained below.

Unless otherwise indicated, no transactions include special terms or conditions, and no guarantee has been given or received. Balances are generally paid in cash.

Transactions with key executives

Remuneration of key executives includes the following expenses:

	Three-month periods ended December 31	
	2011	**2010**
	$	**$**
Short-term staff benefits:		
Salaries and fringe benefits	113,442	89,607
Attendance fees	29,449	23,949
Total short-term benefits	142,891	113,556
Share-based remuneration	330,244	22,176
Total remuneration	473,135	135,732

During the 2011 reporting period, no shares distributed in the share-based payment plan were exercised by key executives.

Related companies

Operations were carried out with two companies of which the key executive, holding a minority interest, is also a director of Pétrolia inc.:

	Three-month periods ended December 31	
	2011	**2010**
	$	**$**
BALANCE SHEET		
Exploration and evaluation assets	2,394	-
Income:		
Salaries and fringe benefits	-	-
Other expenses	-	2,229

Accounts receivable from these companies were $26,366 on December 31, 2011 (2010 – $41,895).

Operations were carried out with a director acting as a consultant for the Company:

	Three-month periods ended December 31	
	2011	**2010**
	$	**$**
BALANCE SHEET		
Exploration and evaluation assets	2,062	2,484

The balance owing to this director was $2,349 on December 31, 2011 (2010 – $1,164).

The Company, in collaboration with a company that shares a director with Pétrolia, carried out the following operations:

	Three-month periods ended December 31	
	2011	**2010**
	$	**$**
Income:		
Salaries and fringe benefits	1,188	12,676
Office supplies	300	300

The balance receivable from this company on December 31, 2011 was $1,150 (2010 – amount owing of $6,560).

Operations were carried out with a close relative of one of the members of the administration, who acts as a service supplier to the Company:

	Three-month periods ended December 31	
	2011	**2010**
	$	**$**
BALANCE SHEET		
Fixed assets	8,607	-

The balance owing to this supplier is $0 on December 31, 2011 (2010 – $0).

The administration considers that these operations were governed by the same conditions as current operations with unrelated third parties. These operations took place in the normal course of business and were measured at their exchange value, which is the consideration established and accepted by related parties.

20. CAPITAL MANAGEMENT

The Company's objectives regarding capital management are to maintain its capacity to continue exploration activities. The Company's capital is made up of shareholders' equity. The Administration 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 characteristics of the risks linked to the underlying assets. In order to maintain or readjust its capital structure, the Company, as a start-up company, is called upon to issue new stock.

There have not been any significant changes concerning the capital management policy during the period ended December 31, 2011. The Company is not subject to any externally imposed capital requirements, regulations or contractual requirements, unless the Company closes a flow-through placement, in which case the funds are restricted for exploration activities.

21. RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk Management Policy

Through its financial assets and liabilities, the Company is exposed to various risks. The following analysis provides an assessment of the risks as at June 30, 2011, the date of the balance sheet.

Credit Risk

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

Maximum exposure to credit risk on December 31:

	2011	**2010**
	$	**$**
Cash	1,678,918	4,151,115
Money market fund	-	1,000
Guaranteed investment certificates	6,784,331	3,600,000
Receivables	2,057,935	3,124,044
	10,521,184	10,876,159

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 and the sale of interests in some of its petroleum assets. One of Management's main financial objectives is to maintain an optimal level of liquidity by actively managing the exploration work to be performed. Considering the liquid resources at the Company's disposal, Management feels that the Company is not exposed to high liquidity risks. All of the Company's financial liabilities have maturity dates of less than one year.

Market Risk

Market risk is the risk of fluctuations in the fair value or future cash flows of financial instruments due to market factors. Market risk is comprised of three types of risk: interest rate risk, foreign exchange risk, and other price risks. The Company is exposed to two of these risks, namely interest rate risk and other price risks.

A) Interest Rate Risk

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

Investments are at a fixed interest rate, and thereby expose the Company to the risk associated to variations in the fair value ensuing from interest rate fluctuations. For the period ended December 31, 2011, if the interest rates in effect on this date increased or decreased by 1%, with all other variables remaining constant, the net income would have varied by $12,575.

B) Other Price Risks

The Company is exposed to fluctuations in oil and gas prices, which have an effect on the potential profitability of the oil and gas properties it holds. This can go so far as to impact the Company’s exploration plans and decisions to move ahead with production.

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 funds: given their short-term maturity, the fair value corresponds to their cost.

As regards the loan, the accounting value is quite close to the fair value, and this because of a variable interest rate on the debt.

Hierarchy of Fair Value Valuations

Financial instruments recorded at fair value on the balance sheets are categorized according to a hierarchy that reflects the significance of the data used to carry out the valuations.

The hierarchy of fair value valuations is broken down into the following levels:

Level 1 – valuation based on the prices (non-adjusted) listed on the asset markets for identical assets or liabilities: cash is found on this level.

Level 2 – valuation techniques based on data other than the listed prices referred to in level 1 observable for assets or liabilities directly (prices) or indirectly (price derivatives): cash equivalents and investments are found on this level.

Level 3 – valuation techniques based on a significant share of data related to the asset or liability not based on observable market data (non-observable data).

The hierarchy that applies as part of the determination of the fair value requires the use of observable market data when such data exist. A financial instrument is classified at the lowest level of the hierarchy for which a significant input was considered in measuring fair value.

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

The fair value of financial instruments is summarized as follows on December 31:

	2011		2010	
	Book value	**Fair value**	**Book value**	**Fair value**
	$	$	$	$
Financial assets at fair value through profit or loss:				
Cash and cash equivalents	7,533,250	7,533,250	7,752,115	7,752,115
Investments	930,000	930,000	754,331	754,331
Loans and debts:				
Receivables	2,057,935	2,057,935	3,124,044	3,124,044
Other financial liabilities:				
Trade and other payables	2,572,546	2,572,546	1,594,854	1,594,854
Loan	-	-	2,243,310	2,243,310

22. COMMITMENTS

The Company has signed leases for the rental of office space and one house from four different corporations. The balance of the commitments associated with these leases, excluding escalation clauses, is $1,284,545, of which $5,000 is payable to a company in which a director holds a minority share.

The following minimum payments will be due over the course the next few fiscal years:

2013	2014	2015	2016
$275,247	$275,247	$275,247	$183,498

The Company is committed to support the renewal of the new NSERC-Produits Forestiers Anticosti Industrial Research Chair in the amount of $200,000 over a period of 5 years. A part of these costs could potentially be taken on by a partner.

The following minimum payments will be due over the course the next few fiscal years:

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

23. CONTINGENCIES

Financing

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

Environment and letters of guarantee

The Company's operations are regulated by government environmental protection laws. Environmental consequences are difficult to identify, whether in terms of level, timeline or impact. Currently, to the best of management's knowledge, the Company is operating in accordance with the laws and regulations in effect. Letters of guarantee to guarantee the work to close certain sites were issued for the amount of $930,000 in favour of the Ministry of Natural Resources.

These letters of guarantee are guaranteed by guaranteed investment certificates for an equivalent amount.

On October 5, 2011, a motion for compensatory and punitive damages was filed in Court against the Company as part of proceedings that had been instituted by Pétrolia against Ugo Lapointe and the *Le Soleil* newspaper. The amount of the suit is estimated at $400,000. The Company intends to contest the demands made in the motion.

24. ADDITIONAL INFORMATION ON CASH FLOW

Additional information

	December 31 2011 $	**December 31 2010 $**
Interest paid	15,505	17,685
Interest received	143,367	-
Dividends paid	-	-
Dividends received	-	-

25. DEFERRED TAX

The effective tax rate for the Company differs from the combined basic tax rate (federal and provincial). This difference results in the following items:

	December 31 2011 $	**December 31 2010 $**
Earnings (loss) before income taxes	(1,367,929)	4,899,104
Combined basic tax rates 26.9% (2010 – 28.4%)	(367,973)	1,389,001
Stock-based compensation	150,369	23,515
Non-deductible expenses and other	317	930
	(217,287)	1,413,446

Deferred income tax assets and liabilities originate from the differences between the tax value and carrying value of the following items:

	On December 31 2011 $	**On September 30 2011 $**	**On October 1 2010 $**
Deferred tax assets:			
Reported losses	(1,446,778)	(1,229,491)	(1,396,141)
Share issuance costs	(116,233)	(116,233)	(194,865)
Others	(29,263)	(29,263)	(37,883)
	(1,592,274)	(1,374,987)	(1,628,889)
Deferred tax liabilities:			
Properties	846,814	846,814	28,373
Deferred exploration expenses	2,767,303	2,767,303	2,924,099
	3,614,117	3,614,117	2,952,472
Net deferred tax liabilities recognized	2,021,843	2,239,130	1,323,583

26. FIRST APPLICATION OF IFRS

The present statements are the Company's first financial statements prepared according to IFRS. The date of IFRS adoption by the Company is October 1, 2011. However, the date of transition between Canadian GAAP to IFRS is October 1, 2010, the date of the first comparative period.

The Company's IFRS accounting practices presented in Note 4 were used for the preparation of financial statements for the recording period ended December 31, 2011, as well as for comparative information and the first financial position statement on the date of transition. The Company applied IFRS 1 "First-Time Adoption of International Financial Reporting Standards" to prepare its first IFRS financial statements. The effect of the transition to IFRS on pre-established shareholders' equity, comprehensive income and cash flow is described in this note and explained in more detail in the notes accompanying the tables.

First application – applicable exceptions and exemptions

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

Required exceptions

a) Estimates
Estimates established according to IFRS by the Company on the date of transition to IFRS are in accordance with the estimates established on the same date according to Canadian GAAP accounting standards, after adjustments for accounting policy differences, where necessary.

b) De-recognition of financial assets and liabilities
Financial assets and liabilities that were derecognized before October 1, 2010 according to GAAP were not recognized according to IFRS.

Optional exemption

The Company decided not to retroactively apply the IFRS standard 2, "Share-Based Payment" to stock options issued before November 7, 2002 and to options issued after November 7, 2002, which vested before the date of transition, October 1, 2010.

Reconciliation of Canadian GAAP to IFRS

The following tables present a quantification of the effects related to the transition to IFRS based on the following reconciliations:

- Reconciliation of shareholders' equity on October 1, 2010, December 31, 2010 and September 30, 2011.
- Reconciliation of the balance sheet on October 1, 2010 and September 30, 2011.
- Reconciliation of net income and comprehensive income for the quarter ended December 31, 2010 and the fiscal year ended September 30, 2011.

It should be noted that the transition to IFRS has no significant effect on the Company cash flow tables.

Reconciliation of shareholders' equity	**On September 30 2011**	**On December 31 2010**	**On October 1, 2010**
	$	**$**	**$**
Shareholders' equity according to Canadian GAAP	34,103,341	30,165,826	26,605,625
Effects of the transition to IFRS:			
Transfer of the contributed surplus of expired stock options to the contributed surplus:			
• Contributed surplus – Expired stock options	(903,797)	(783,366)	(783,366)
• Contributed surplus	903,797	783,366	783,366
Issue of flow-through shares			
Premium to the issue price			
• Capital stock	(637,500)	(637,500)	(637,500)
Deferred tax transferred from capital stock to retained earnings			
• Capital stock	2,793,592	2,793,592	2,793,592
• Retained earnings	(2,793,592)	(2,793,592)	(2,793,592)
Share-based remuneration – administration			
• Contributed surplus	(3,261)	(3,261)	-
• Retained earnings	3,261	3,261	-
Share-based remuneration – operations			
• Retained earnings	-	4,996	-
Tax rate change adjustment			
Deferred tax transferred from capital stock to retained earnings			
• Capital stock	(18,023)	(28,315)	(28,315)
• Retained earnings	18,023	28,315	28,315
Completion of flow-through work			
• Retained earnings	637,500	637,500	637,500
Shareholders' equity according to IFRS:	34,103,341	30,170,822	26,605,625

Net income and comprehensive income for the recording periods ended December 31 and September 30, 2011 can be reconciled to the amounts presented according to Canadian GAAP as follows:

	For the fiscal year	For the quarter
	September 30 2011	**December 31 2010**
	$	**$**
Net income and comprehensive income according to Canadian GAAP	2,160,668	3,477,401
Variation in pre-established net income due to the following difference between Canadian GAAP and IFRS:		
Stock-based compensation	-	8,257
Comprehensive net income according to IFRS	2,160,668	3,485,658

Cash flow tables

According to Canadian GAAP norms in effect at the time of transition, interest paid and received was presented in the notes. Under IFRS standards, interest is categorized in investment and finance activities. Under There are no other significant readjustments to the consolidated cash flow table. Cash items according to Canadian GAAP are similar to those presented according to IFRS.

Impairment losses recognized on date of transition

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

Measurements used in this analysis were coherent with measurements used according to Canadian GAAP on the same date, after readjustments to reflect any difference in accounting practices, if applicable.

Notes related to the reconciliations

The sections below demonstrate significant differences between previous accounting practices according to Canadian GAAP and IFRS practices that the Company now applies:

a) Exploration and evaluation assets

The items "Oil and gas properties" and "Deferred exploration fees" were combined for presentation purposes under the heading "Exploration and evaluation assets."

b) Stock issued as a flow-through investment

According to accounting standards in effect before the launch, the total of proceeds received on the issuance of flow-through shares was credited to capital stock. At the time of the renouncement of deductions related to exploration expenses in income tax, these taxable temporary differences were created and deferred tax was recognized. Related expenses were treated as share issuance fees.

According to IFRS, the issuance of flow-through shares is recognized as a compound financial instrument. The financial liability represents the obligation to transfer tax deductions to investors. Proceeds from share issuance as private flow-through financing are allocated to flow-through shares issued and the liability through the residual method. The proceeds are first charged to shares according to the stock market price at the time of issue and the residual amount is allocated to the liability, which is reversed in income as recovery of deferred tax when eligible expenses are incurred.

There are no exemptions under IFRS 1 for the first adoptions regarding flow-through shares, thus the IFRS treatment is retroactively applicable.

Effects of this measure:

Eligible expenses having been incurred, a liability of $637,500 was transferred from capital stock to retained earnings on October 1, 2010. In addition, the deferred tax liability, at $2,738,592, was also transferred from capital stock to retained earnings.

c) Share-based payments

According to Canadian GAAP, the fair value of a share-based payment with a phased vesting period is recognized on a straight-line basis according to the length of service to ensure vesting. In addition, the forfeiture of share-based payments is recognized if it occurs.

According to IFRS 2, each tranche of a share-based payment with a phased vesting period is treated as its own award with its own vesting period and fair value. Each award is recognized according to the foregoing. In addition, the Company must estimate the number of share-based payments expected to be forfeited, which is reviewed if subsequent information indicates that the actual number of share-based payments is probably different from the estimated number.

The Company decided to not retroactively apply the IFRS 2 standard, “Share-based payment” to stock options granted before November 7, 2002 and to options granted after November 7, 2002, which vested before the date of transition.

Effects of this measure:

On October 1, 2010, there was no effect.

On December 31, 2010, a reduction of share-based remuneration by $8,257 was recorded in income for the period and for the fiscal year of September 30, 2011.

d) Presentation differences

Certain presentation differences between the accounting practices in effect before the changeover and IFRS have no effect on the net income presented or on total shareholders' equity, notably regarding the treatment of contributed surplus of expired stock options.

As it is demonstrated in the following tables, certain items are described differently in IFRS (renamed) compared to the previous GAAP terms. These presentation differences have no effect on the comprehensive income presented or total shareholders' equity.

e) Change of rate for the calculation of deferred tax

According to Canadian GAAP, an entity must show in income the changes previously brought to tax rates and tax laws for amounts previously recognized in other items of comprehensive income or shareholders' equity.

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

Effects of this measure:

On October 1, 2010, the amount of $28,315 was transferred from retained earnings to capital stock.

27. TRANSITION TO IFRS STANDARDS

The following tables represent the reconciliation of shareholders' equity, income and comprehensive income between Canadian GAAP and IFRS.

Reconciliation of the financial position statement on October 1, 2010

Canadian GAAP items	Amounts according to Canadian GAAP		Effects of the transition to IFRS	Amounts according to IFRS	IFRS items
	$		$	$	
ASSETS					**ASSETS**
CURRENT ASSETS					**CURRENT**
Cash and cash equivalents	1,949,055		-	1,949,055	Cash and cash equivalents
Receivables	2,920,900		-	2,920,900	Receivables
Advance on exploration work	70,372		-	70,372	Advance on exploration work
Investments cashable during the next fiscal year	754,331		-	754,331	Investments cashable during the next fiscal year
	5,694,658		-	5,694,658	Total current assets
					NON-CURRENT
Fixed assets	213,159		-	213,159	Fixed assets
		a)	25,087,040	25,087,040	Exploration and evaluation assets
Oil and gas properties	3,852,629	a)	(3,852,629)	-	
Deferred exploration expenses	21,234,411	a)	(21,234,411)	-	
	25,300,199		-	25,300,199	Total non-current assets
	30,994,857		-	30,994,857	Total assets
LIABILITIES					**LIABILITIES**
CURRENT LIABILITIES					**CURRENT**
Trade and other payables	822,339			822,339	Suppliers and other creditors
Loan	2,243,310		-	2,243,310	Bank debt
	3,065,649		-	3,065,649	
					NON-CURRENT
Future taxes	1,323,583		-	1,323,583	Deferred tax liabilities
	4,389,232			4,389,232	Total liabilities
SHAREHOLDERS' EQUITY		b)	2 793,592		**SHAREHOLDERS' EQUITY**
		b)	(637,500)		
CAPITAL STOCK	28,288,874	e)	(28,315)	30,416,651	Capital stock
Contributed surplus – Stock options	1,300,615	d)	783,366	2,083,981	Other items of shareholders' equity
Contributed surplus – Expired stock options	783,366	d)	(783,366)	-	
		b)	(2 793,592)		
		b)	637,500		
Deficit	(3,767,230)	e)	28,315	(5,895,007)	Deficit
	26,605,625		-	26,605,625	Total shareholders' equity
	30,994,857		-	30,994,857	Total liabilities and shareholders' equity

Reconciliation of the income and comprehensive income statement for the quarter ended December 31, 2010

Canadian GAAP items	Amounts according to Canadian GAAP		Effects of the transition to IFRS	Amounts according to IFRS	IFRS items
	$		$	$	
REVENUE					**OTHER REVENUE**
Interest income	6,522		-	6,522	Revenue from cash and cash equivalents
	6,522		-	6,522	
OPERATION AND ADMINISTRATION FEES					**ADMINISTRATION FEES**
Stock-based compensation	82,800	c)	(8,257)	74,543	Stock-based compensation
Salaries and fringe benefits	395,553		-	395,553	Salaries and fringe benefits
Insurance	13,382		-	13,382	Insurance
Transportation	37,089		-	37,089	Transportation
Office supplies	19,363		-	19,363	Office supplies
Training	2,178		-	2,178	Training
Board of directors expenses	27,101		-	27,101	Board of directors expenses
Information for shareholders	12,568		-	12,568	Information for shareholders
Interest and bank fees	22,617		-	22,617	Interest on borrowing
Office rent	29,967		-	29,967	Office rent
Promotion and entertainment	31,312		-	31,312	Promotion and entertainment
Professional fees	63,712		-	63,712	Professional fees
Telecommunications	9,733		-	9,733	Telecommunications
Depreciation of fixed assets	14,845		-	14,845	Depreciation of fixed assets
Other expenses	6,517		-	6,517	Other expenses
Allocation to deferred exploration work deferred	(266,605)		-	(266,605)	Charge to exploration and evaluation assets
	502,132		(8,257)	493,875	
OTHER ITEMS					**OTHER ITEMS**
Gain on disposal of interest in certain licenses (net of taxes)	3,856,703		-	3,856,703	Gain on disposal of interest in certain licenses (net of taxes)
	3,354,571			3,362,828	
INCOME BEFORE TAX	3,361,093			3,369,350	**INCOME BEFORE TAX**
Future income taxes	116,308		-	116,308	Deferred tax expense
NET INCOME AND COMPREHENSIVE INCOME	3,477,401			3,485,658	**COMPREHENSIVE AND NET INCOME FOR THE YEAR**
BASIC NET INCOME PER SHARE	0.0695			0.0697	**BASIC EARNINGS PER SHARE**
DILUTED NET INCOME PER SHARE	0.0571			0.0572	**DILUTED EARNINGS PER SHARE**

Reconciliation of the financial position statement on September 30, 2011

Canadian GAAP items	Amounts according to Canadian GAAP		Effects of the transition to IFRS	Amounts according to IFRS	IFRS items
	$		$	$	
ASSETS					**ASSETS**
CURRENT ASSETS					**CURRENT**
Cash and cash equivalents	8,151,034		-	8,151,034	Cash and cash equivalents
Receivables	4,617,371		-	4,617,371	Receivables
Inventories	61,619		-	61,619	Inventories
Advance on exploration work	141,158		-	141,158	Advance on exploration work
Investments cashable during the next fiscal year	930,000		-	930,000	Investments cashable during the next fiscal year
	13,901,182		-	13,901,182	Total current assets
					NON-CURRENT
Fixed assets	931,779		-	931,779	Fixed assets
	-	a)	25,703,789	25,703,789	Exploration and evaluation assets
Oil and gas properties	3,148,005	a)	(3,148,005)	-	
Deferred exploration expenses	22,555,784	a)	(22,555,784)	-	
	26,635,568		-	26,635,568	Total non-current assets
	40,536,750		-	40,536,750	Total assets
LIABILITIES					**LIABILITIES**
CURRENT LIABILITIES					**CURRENT**
Trade and other payables	1,469,518		-	1,469,518	Suppliers and other creditors
Loan	2,243,310		-	2,243,310	Bank debt
Provision for site restoration	135,500		-	135,500	Provision for site restoration
	3,848,328		-	3,848,328	
					NON-CURRENT
Deferred lease inducements	112,273		-	112,273	Deferred lease inducements
Provision for site restoration	233,678		-	233,678	Provision for site restoration
Future taxes	2,239,130		-	2,239,130	Deferred tax liabilities
	6,433,409		-	6,433,409	Total liabilities
SHAREHOLDERS' EQUITY			2,793,592		**SHAREHOLDERS' EQUITY**
			(637,500)		
CAPITAL STOCK	33,314,786	b)	(18,023)	35,452,855	Capital stock
Contributed surplus – Stock options	1,491,320	d)	903,797	2,395,117	Other items of shareholders' equity
Contributed surplus – Expired stock options	903,797	d)	(903,797)	-	
			(2,793,592)		
			637,500		
Deficit	(1,606,562)	b)	18,023	(3,744,631)	Deficit
	34,103,341		-	34,103,341	Total shareholders' equity
	40,536,750			40,536,750	Total liabilities and shareholders' equity

Reconciliation of the income and comprehensive income statement for the fiscal year ended September 30, 2011

Canadian GAAP items	Amounts according to Canadian GAAP	Effects of the transition to IFRS	Amounts according to IFRS	IFRS items
	$	$	$	
REVENUE				**OTHER REVENUE**
Project income	44,854	-	44,854	Project income
Interest income	133,587	-	133,587	Revenue from cash and cash equivalents
	178,441	-	178,441	
OPERATION AND ADMINISTRATION FEES				**ADMINISTRATION FEES**
Stock-based compensation	500,208	-	500,208	Stock-based compensation
Salaries and fringe benefits	1,592,822	-	1,592,822	Salaries and fringe benefits
Insurance	55,459	-	55,459	Insurance
Transportation	173,770	-	173,770	Transportation
Maintenance and office supplies	96,594	-	96,594	Maintenance and office supplies
Training	21,414	-	21,414	Training
Board of directors expenses	141,546	-	141,546	Board of directors expenses
Information for shareholders	74,493	-	74,493	Information for shareholders
Interest and bank fees	89,201	-	89,201	Interest and bank fees
Office rent	170,504	-	170,504	Office rent
Promotion and entertainment	121,421	-	121,421	Promotion and entertainment
Professional fees	186,479	-	186,479	Professional fees
Capital tax	3,000	-	3,000	Capital tax
Telecommunications	24,643	-	24,643	Telecommunications
Depreciation of fixed assets	126,114	-	126,114	Depreciation of fixed assets
Other expenses	43,151	-	43,151	Other expenses
Allocation to deferred exploration work	(1,159,762)	-	(1,159,762)	Charge to exploration and evaluation assets
	2,261,057	-	2,261,057	
OTHER ITEMS				**OTHER ITEMS**
Gain on disposal of interest in certain licenses (net of taxes)	5,158,607	-	5,158,607	Gain on disposal of interest in certain licenses (net of taxes)
	2,897,550	-	2,897,550	
INCOME BEFORE TAX	3,075,991	-	3,075,991	**INCOME BEFORE TAX**
Future income taxes	915,323	-	915,323	Deferred tax expense
NET INCOME AND COMPREHENSIVE INCOME	2,160,668	-	2,160,668	**COMPREHENSIVE AND NET INCOME FOR THE YEAR**
BASIC NET INCOME PER SHARE	0.042	-	0.042	**BASIC EARNINGS PER SHARE**
DILUTED NET INCOME PER SHARE	0.041	-	0.041	**DILUTED EARNINGS PER SHARE**
BASIC WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	51,249,243	-	51,249,243	**BASIC WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING**
DILUTED WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	52,590,389	-	52,590,389	**DILUTED WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING**

APPENDICES

	2011 $	2010 $
A- ADMINISTRATIVE EXPENSES		
Stock-based compensation	469,741	45,339
Salaries and fringe benefits	185,465	165,979
Insurance	12,312	12,635
Maintenance and office supplies	25,633	12,979
Board of directors expenses	32,211	27,101
Information for shareholders	13,623	12,568
Office rent	32,174	16,836
Promotion and entertainment	18,248	31,312
Travel expenses	29,364	28,421
Professional fees	69,534	63,712
Capital tax	(12,663)	-
Telecommunications	3,240	7,206
Depreciation of fixed assets	28,809	10,009
Other expenses	1,365	4,221
	909,056	438,318
B- OPERATING EXPENSES		
Stock-based compensation	89,251	29,204
Salaries and fringe benefits	258,324	229,574
Insurance	8,937	747
Maintenance and office supplies	7,708	6,384
Travel expenses	5,859	8,668
Training	695	2,178
Office rent	34,398	13,131
Professional fees	-	
Telecommunications	2,790	2,527
Depreciation of fixed assets	33,547	4,836
Other expenses	763	1,593
Allocation to deferred exploration work	(408,670)	(266,605)
Under (over) charge	33,602	32,237
C- FINANCIAL INCOME AND EXPENSES		
Interest income (Note 17)	(59,219)	(6,522)
Bank fees	959	703
Interest on debt	8,315	22,617
	(49,945)	16,798