Leader en exploration pétrolière au Québec

THIRD QUARTER

Unaudited interim financial statements

As at June 30, 2008

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UNAUDITED INTERIM FINANCIAL STATEMENTS

FOR THE THREE- AND NINE-MONTH PERIODS ENDED JUNE 30, 2008

Declaration concerning the interim financial statements

Management has prepared the interim financial statements of Pétrolia Inc., including the balance sheet as at June 30, 2008, as well as the statements of income, shareholders' equity, deferred exploration expenses, and cash flows for the three- and nine-month periods ended June 30, 2008. No external auditors' firm has examined or verified these interim financial statements.

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Pétrolia Inc.
(Oil and gas exploration company)

BALANCE SHEET

	As at June 30, 2008 $	As at September 30, 2007 $
	(unaudited)	(audited)
ASSETS		
Current assets		
Cash	47,473	48,473
Short-term investments	11,713,694	3 000 000
Receivables	1,204,206	261,683
Prepaid expenses	31,678	117,763
	12,997,051	3,427,919
Investments	2,420,000	565,000
Fixed assets	151,315	67,147
Oil and gas properties (note 3)	1,961,011	1,610,714
Deferred exploration expenses (note 4)	7,844,545	7,066,177
	25,373,922	12,736,957
LIABILITIES		
Current liabilities		
Payables and accrued expenses	191,794	315,976
Current portion of long-term debt	20,976	11,694
	212,770	327,670
Long-term debt	34,926	20,150
Future taxes	1,525,951	1,607,131
Deposit on shares to be issued	-	3,000,000
	1,773,647	4,954,951
SHAREHOLDERS' EQUITY		
Capital stock (note 7)	21,481,453	7,728,400
Contributed surplus – Stock options	1,263,806	636,968
Contributed surplus – Expired stock options	195,946	195,901
Retained earnings (deficit)	659,070	(779,263)
	23,600,275	7,782,006
	25,373,922	12,736,957

On behalf of the Board

(signed) *André Proulx*
Director

(signed) *Clément Duchesne*
Director

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Pétrolia Inc.
(Oil and gas exploration company)

STATEMENT OF INCOME (unaudited)

	Periods ended June 30			
	2008 (three months) $	2007 (three months) $	2008 (nine months) $	2007 (nine months) $
REVENUE				
Interest income	44,908	1,366	122,011	35,916
Gain on disposal of rolling stock	-	-	3,724	-
	44,908	1,366	125,735	35,916
GENERAL AND ADMINISTRATIVE EXPENSES				
Stock-based compensation	-	148,770	207,450	148,770
Salaries and fringe benefits	85,464	68,245	226,973	199,695
Insurance	9,404	10,624	28,622	31,056
Information to shareholders	6,383	3,544	49,537	17,816
Promotion and entertainment	13,228	13,710	32,291	52,131
Maintenance and office supplies	3,225	1,692	13,021	12,546
Governmental fees	-	-	-	13,076
Rent	3,973	8,789	11,225	25,599
Professional fees	509	745	21,366	12,828
Telecommunications	3,890	4,961	12,866	15,175
Depreciation of fixed assets	9,885	5,929	25,148	17,053
Costs attributable to exploration expenses	(6,823)	(2,983)	(33,848)	(37,654)
Others	28,336	9,518	73,931	27,110
	157,474	273,544	668,582	535,201
LOSS BEFORE OTHER ITEM AND INCOME TAXES	(112,566)	(272,178)	(542,847)	(499,285)
OTHER ITEM				
Unrealized gain (loss) on financial assets held for trading	1,590,000	(150,000)	1,900,000	300,000
EARNINGS (LOSS) BEFORE INCOME TAXES	1,477,434	(422,178)	1,357,153	(199,285)
Future income taxes	(10,068)	(31,842)	(81,180)	(104,194)
NET EARNINGS (LOSS)	1,487,502	(390,336)	1,438,333	(95,091)
NET EARNINGS (LOSS) PER SHARE				
Basic	0.0448	(0.0134)	0.0433	(0.0033)
Diluted	0.0399	(0.0134)	0.0386	(0.0033)

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STATEMENT OF SHAREHOLDERS' EQUITY

	Capital Stock		Contributed surplus			
	Shares	Amount	Stock options	Expired stock options	Retained earnings (deficit)	Total
		$	$	$	$	$
Audited balance as at September 30, 2006	28,548,649	7,379,827	450,057	159,596	(491,118)	7,498,362
Issued during the year						
Warrants exercised	104,500	61,675	-	-	-	61,675
Broker warrants exercised	555,103	292,223	(81,284)	-	-	210,939
Share issuance costs	-	(5,325)	-	-	-	(5,325)
Other activities						
Stock-based compensation	-	-	304,500	-	-	304,500
Expired stock options	-	-	(27,000)	27,000	-	-
Expired broker warrants	-	-	(9,305)	9,305	-	-
Net loss	-	-	-	-	(288,145)	(288,145)
Audited balance as at September 30, 2007	29,208,252	7,728,400	636,968	195,901	(779,263)	7,782,006
Issued during the period						
Cash	11,416,665	14,749,999				14,749,999
Broker warrants exercised	201,802	106,716	(30,031)			76,685
Stock options exercised	87,500	56,692	(21,692)			35 000
Share issuance costs		(1,160,354)				(1,160,354)
Other activities						
Stock-based compensation and broker warrants			678,606			678,606
Expired broker warrants			(45)	45		-
Net income					1,438,333	1,438,333
Unaudited balance as at June 30, 2008	40,914,219	21,481,453	1,263,806	195,946	659,070	23,600,275

STATEMENT OF DEFERRED EXPLORATION EXPENSES (unaudited)

	Periods ended June 30			
	2008 (three months) $	2007 (three months) $	2008 (nine months) $	2007 (nine months) $
EXPLORATION EXPENSES				
Analyses	960	-	7,582	4,410
Drilling	-	15,652	50,978	76,236
Geology	166,666	66,679	385,664	211,770
Geophysical surveys	518,435	19,761	1,038,122	956,926
General exploration expenses	6,823	2,983	33,848	37,654
Stock-based compensation	-	155,730	104,550	155,730
	692,884	260,805	1,620,744	1,442,726
DEDUCTIONS				
Exploration subsides	51,755	-	327,441	-
Partner contributions	514,935	-	514,935	-
	566,690	-	842,376	-
INCREASE IN EXPLORATION EXPENSES FOR THE PERIOD	126,194	260,805	778,368	1,442,726
BALANCE, BEGINNING OF PERIOD	7,718,351	6,753,484	7,066,177	5,571,563
BALANCE, END OF PERIOD	7,844,545	7,014,289	7,844,545	7,014,289

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Pétrolia Inc.
(Oil and gas exploration company)

STATEMENT OF CASH FLOWS (unaudited)

	Periods ended June 30			
	2008 (three months) $	2007 (three months) $	2008 (nine months) $	2007 (nine months) $
OPERATING ACTIVITIES				
Net earnings (loss)	1,487,502	(390,336)	1,438,333	(95,091)
Items not affecting cash				
Stock-based compensation	-	148,770	207,450	148,770
Depreciation of fixed assets	9,886	5,929	25,148	17,053
Gain on disposal of rolling stock	-	-	(3,724)	-
Future income taxes	(10,068)	(31,842)	(81,180)	(104,194)
Unrealized loss (gain) on financial assets held for trading	(1,590,000)	150,000	(1,900,000)	(300,000)
	(102,680)	(117,479)	(313,973)	(333,462)
Net change in non-cash operating items	65,329	82,359	94,707	57,736
	(37,351)	(35,120)	(219,266)	(275,726)
FINANCING ACTIVITIES				
Financing obtained	-	-	37,889	-
Capital stock issuance	10,024,999	8,005	11,861,683	272,424
Share issuance costs	(648,212)	(6,982)	(793,747)	(57,090)
Repayment of long-term debt	(5,127)	(2,861)	(13,831)	(8,528)
	9,371,660	(1,838)	11,091,994	206,806
INVESTING ACTIVITIES				
Acquisition of fixed assets	(50,868)	(1,158)	(110,498)	(11,152)
Acquisition of oil and gas properties	(187,295)	(51,372)	(350,297)	(74,111)
Increase in deferred exploration expenses net of government subsides	(835,323)	(194,996)	(1,749,145)	(1,360,904)
Disposal of rolling stock	-	-	4,906	-
Disposal of long-term investments	-	-	45,000	-
	(1,073,486)	(247,526)	(2,160,034)	(1,446,167)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,260,823	(284,484)	8,712,694	(1,515,087)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,500,344	652,801	3,048,473	1,883,404
CASH AND CASH EQUIVALENTS, END OF PERIOD	11,761,167	368,317	11,761,167	368,317
CASH AND CASH EQUIVALENTS ARE AS FOLLOWS:				
Cash	47,473	38,997	47,473	38,997
Short-term investments	11,713,694	329,320	11,713,694	329,320
	11,761,167	368,317	11,761,167	368,317

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ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS
as at June 30, 2008
(unaudited)

1) INTERIM FINANCIAL INFORMATION

The financial information as at June 30, 2008, and for the periods ended June 30, 2008, has not been audited. However, in Management's opinion, all of the adjustments that are necessary to give a fair presentation of the results for these periods have been included. The adjustments made are of a normal, recurring nature. The interim operating results do not necessarily reflect the expected operating results for the full year.

2) SIGNIFICANT ACCOUNTING POLICES

These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are based on the same accounting policies and methods as those mentioned in note 2 of the Company's annual financial statements as at September 30, 2007, with the exception of recent accounting changes. However, they do not include all of the information that must be provided in annual financial statements. These interim financial statements should therefore be read in parallel with the Company's most recent audited annual financial statements.

Recent accounting changes

The Company has adopted the following new standards from the handbook of the Canadian Institute of Chartered Accountants ("CICA"), which apply to interim financial statements for periods beginning on or after October 1, 2007:

Financial instruments - Disclosures

Section 3862, "Financial Instruments – Disclosures". This section describes the required disclosure for evaluating the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of the risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This section as well as section 3863, "Financial Instruments – Presentation", will replace section 3861, "Financial Instruments – Disclosures".

Financial Instruments – Presentation

Section 3863, "Financial Instruments – Presentation". This section establishes standards for presentation of financial instruments and non-financial derivatives.

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2) SIGNIFICANT ACCOUNTING POLICES (continued)

Capital Disclosures

Section 1535, "Capital Disclosures". This section establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies, and processes for managing capital, as well as the quantitative data used to calculate capital. The section seeks to determine whether the entity has complied with capital requirements and, if not, the consequences of such non-compliance.

The additional information required by the adoption of these standards is presented in notes 5 and 6.

Future accounting changes

The CICA modified section 1400, "General Standards of Financial Statement Presentation", which applies for interim periods beginning October 1, 2008, in order to include the criteria for determining and presenting the Company's ability to continue as a going concern (going-concern assumption). The adoption of this new section will have no significant impact on the financial statements.

3) OIL AND GAS PROPERTIES

	June 30, 2008 **$**	**September 30, 2007** **$**
	(unaudited)	(audited)
Quebec		
Anticosti	114,396	-
Edgar	15,003	10,002
Gaspésia	257,770	188,660
Gaspé and Gastonguay	1,546,010	1,386,107
Marcel Tremblay	6,633	4,746
New Brunswick		
Dalhousie	21,199	21,199
	1,961,011	1,610,714

4) DEFERRED EXPLORATION EXPENSES

	September 30, 2007 $	Additions $	June 30, 2008 $
	(audited)	(unaudited)	(unaudited)
Quebec			
Anticosti	23,757	674,021	697,778
Edgar	205,465	22,377	227,842
Gaspésia	2,455,102	74,170	2,529,272
Gaspé and Gastonguay	4,422,106	764,386	5,186,492
Saint-Simon	102,707	-	102,707
Marcel Tremblay	2,529	15,935	18,464
New Brunswick			
Dalhousie	19,779	69,855	89,634
	7,231,445	1,620,744	8,852,189
Less:			
Exploration subsidies and partner contributions-			
Anticosti	8,315	211,622	219,937
Edgar	11,512	7,205	18,717
Gaspésia	53,598	23,499	77,097
Gaspé and Gastonguay	84,036	594,937	678,973
Marcel Tremblay	885	5,113	5,998
Dalhousie	6,922	-	6,922
	165,268	842,376	1,007,644
	7,066,177	778,368	7,844,545

	September 30, 2006 $	Additions $	June 30, 2007 $
	(audited)	(unaudited)	(unaudited)
Quebec			
Edgar	2,196	190,820	193,016
Gaspésia	1,469,658	963,364	2,433,022
Gaspé and Gastonguay	4,029,616	270,278	4,299,894
Saint-Simon	102,564	143	102,707
New Brunswick			
Dalhousie	-	18,121	18,121
	5,604,034	1,442,726	7,046,760
Less:			
Exploration subsidies - Gaspésia	32,471	-	32,471
	5,571,563	1,442,726	7,014,289

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5) FINANCIAL INSTRUMENTS

Risk management policy

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

Credit risk

The financial instruments that could subject the Company to a credit risk are mainly comprised of cash and cash equivalents and receivables. The cash and cash equivalents are held or issued by top-rated financial institutions. Management therefore feels that the risk of non-execution with these instruments is very minimal.

Liquidity risk

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

Interest rate risk

The Company's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	Non-interest bearing and fixed rate
Receivables	Non-interest bearing
Excess of outstanding cheques over bank balance	Non-interest bearing
Payables and accrued expenses	Non-interest bearing
Long-term debt	Fixed rates of 2.5% and 4.7%

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5) FINANCIAL INSTRUMENTS (continued)

Market risk

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

6) INFORMATION REGARDING CAPITAL

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

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

The Company defines its capital as follows:

- Equity capital
- Long-term debt, including the short-term portion
- Cash and cash equivalents

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

During the quarter, the Company followed the same strategy as during the corresponding quarter of the prior fiscal year.

The Company is currently meeting all of its financial commitments.

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7) CAPITAL STOCK

Stock-based compensation

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

During the period, the Company granted stock options with exercise prices that correspond to the market price of the stock on their grant date, and during the quarter, it granted warrants to brokers. The fair value of each granted option and broker warrant is calculated according to the Black-Scholes option pricing model, using the following assumptions:

	Stock options February and March 2008	**Broker warrants June 2008**
Risk-free interest rate	5.75%	4.75%
Expected volatility	80%	80%
Weighted expected life (years)	5	1.5
Dividend yield	None	None

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

Statement of income	$207,450
Deferred exploration expenses	$104,550
Share issuance costs	$366,606

The weighted average of the fair values of the stock options as at the grant date is $0.60.

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7) CAPITAL STOCK (continued)

The following table summarizes the outstanding stock options:

	Number of options outstanding	Weighted average exercise price $
Outstanding and exercisable, as at September 30, 2007 (audited)	2,645,000	0.41
Granted	750,000	0.60
Exercised	(87,500)	0.40
Outstanding and exercisable, as at June 30, 2008	3,307,500	0.46

Warrants
The table below presents a summary of the warrants:

	Number	Weighted average exercise price $
Outstanding and exercisable, as at September 30, 2007 (audited)	1,213,102	0.69
Exercised	201,802	0.38
Issued	8,506,665	1.22
Expired	(1,012,300)	0.75
Outstanding and exercisable, as at June 30, 2008	8,506,665	1.22

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

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