Leader en exploration pétrolière au Québec

THIRD QUARTER

Unaudited interim financial statements

for the nine months ended June 30, 2012 and 2011

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UNAUDITED INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED

JUNE 30, 2012 AND 2011

UNAUDITED INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED

JUNE 30, 2012 and 2011

Declaration Concerning the Interim Financial Statements

The administration prepared Pétrolia Inc.'s interim financial statements for the third quarter ended June 30, 2012 and the corresponding comparative data. No auditing firm has examined or audited these interim financial statements.

INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited – in Canadian dollars)

	As at June 30, 2012 $	As at September 30, 2011 $
ASSETS		
Current		
Cash and cash equivalents (Note 5)	18,993,562	8,151,034
Receivables (Note 6)	1,739,958	4,617,371
Prepaid expenses	1,049,826	141,158
Inventories	61,619	61,619
Investments cashable during the next fiscal year (Note 7)	1,080,000	930,000
	22,924,965	13,901,182
Non-current		
Exploration and evaluation assets (Note 8)	27,772,122	25,703,789
Property, plant and equipment (Note 9)	1,028,259	931,779
	28,800,381	26,635,568
	51,725,346	40,536,750
LIABILITIES		
Current		
Suppliers and other creditors (Note 10)	1,668,895	1,469,518
Loans and borrowings (Note 11)	-	2,243,310
Provision for site restoration (Note 12)	98,000	135,500
	1,766,895	3,848,328
Non-current		
Deferred lease inducements	107,319	112,273
Provision for site restoration (Note 12)	233,678	233,678
Deferred tax liabilities	1,548,082	2,239,130
	1,889,079	2,585,081
	3,655,974	6,433,409
EQUITY		
Share capital (Note 13)	51,485,453	35,452,855
Other components of equity	2,853,451	2,395,117
Deficit	(6,269,532)	(3,744,631)
	48,069,372	34,103,341
	51,725,346	40,536,750

Going concern basis (Note 3)
Contingencies (Note 20)
Supplementary notes are an integral part of the interim financial statements

On behalf of the Board

(signed) *André Proulx*
Director

(signed) *Jaques L. Drouin*
Director

INTERIM STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited – in Canadian dollars)

	For the three months ended June 30,		For the nine months ended June 30,	
	2012 $	**2011 $**	**2012 $**	**2011 $**
REVENUE				
Rental income	3,138	-	9,126	-
Project management	444	17,708	22,622	17,708
	3,582	17,708	31,748	17,708
ADMINISTRATIVE EXPENSES (Schedule A)	886,728	784,356	2,725,970	1,722,100
OPERATING EXPENSES (Schedule B)	84,478	(11,552)	160,190	55,441
FINANCIAL INCOME AND FINANCIAL EXPENSES (Schedule C)	(45,419)	(10,981)	(132,946)	(16,232)
	925,787	761,824	2,753,214	1,761,309
LOSS BEFORE OTHER ITEMS AND INCOME TAXES	(922,205)	(744,116)	(2,721,466)	(1,743,601)
OTHER ITEMS				
Gain (loss) on disposal of interest in certain licences	-	(71,851)	(494,486)	5,386,457
NET INCOME (LOSS) BEFORE TAXES	(922,205)	(815,967)	(3,215,952)	3,642,856
Deferred tax expense	(247,173)	(143,456)	(691,048)	(1,219,204)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	(675,032)	(672,511)	(2,524,904)	2,423,652
BASIC NET EARNINGS (NET LOSS) PER SHARE	(0.012)	(0.013)	(0.045)	0.048
DILUTED NET EARNINGS (NET LOSS) PER SHARE	(0.012)	(0.013)	(0.045)	0.043

INTERIM STATEMENTS OF CHANGES IN EQUITY

(Unaudited – in Canadian dollars)

	Share capital	Contributed surplus	Deficit	Total equity
	$	$	$	$
Unaudited balance at October 1, 2010	30,416,651	2,083,981	(5,895,007)	26,605,625
Debt repayment	33,750	-	-	33,750
Exercise of options	595,662	(118,376)	-	477,286
Warrants exercised	326,746	-	-	326,746
Stock issuance costs	(252)	-	-	(252)
Share-based compensation	-	495,218	-	495,218
Comprehensive income	-	-	2,423,652	2,423,652
Unaudited balance at June 30, 2011	31,372,557	2,460,823	(3,471,355)	30,362,025
Audited balance at September 30, 2011	35,452,855	2,395,117	(3,744,631)	34,103,341
Warrants exercised	1,094,140	-	-	1,094,140
Exercise of options	460,208	(181,358)	-	278,850
Stock issued	15,000,003	-	-	15,000,003
Stock issuance costs	(521,750)	-	-	(521,750)
Share-based compensation	-	639,692	-	639,692
Net and comprehensive loss	-	-	(2,524,904)	(2,524,904)
Unaudited balance as at June 30, 2012	51,485,456	2,853,451	(6,269,532)	48,069,372

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited – in Canadian dollars)

	For the nine months ended June 30, 2012 $	2011 $
OPERATING ACTIVITIES		
Net income (net loss)	(2,524,904)	2,423,652
Items not affecting cash:		
Depreciation of property, plant and equipment	189,611	60,591
Deferred tax expense	(691,048)	1,219,204
Share-based compensation	458,334	453,893
Depreciation of deferred rental incentives	(4,954)	-
Gain on disposal of interest in certain licences	-	(5,386,457)
	(2,572,961)	(1,229,117)
Net change in non-cash working capital items:		
Receivables	(56,679)	(352,615)
Prepaid expenses	(908,668)	15,998
Inventories	-	(67,248)
Suppliers and other creditors	153,536	99,805
	(811,811)	(304,060)
FINANCING ACTIVITIES		
Issuance of shares	16,554,348	832,786
Share issuance costs	(521,750)	(252)
Repayment of bank debt	(2,243,310)	-
	13,789,288	832,534
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(129,560)	(398,041)
Acquisition of investments	(150,000)	-
Disposal of interest in certain licences	-	6,690,000
Expenses for disposal of interest in certain licences	-	(597,832)
Acquisition of oil and gas properties	(1,734,210)	111,460
Increase in deferred exploration expenses net of deductions	2,451,782	(1,140,317)
	438,012	4,442,350
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,842,528	3,741,707
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	8,151,034	1,949,055
CASH AND CASH EQUIVALENTS, END OF PERIOD (Note 5)	18,993,562	5,690,762
CASH AND CASH EQUIVALENTS ARE MADE UP OF THE FOLLOWING:		
Cash	337,411	505,483
Guaranteed investment certificates (redeemable at any time)	5,354,331	5,184,279
Money market fund	13,301,820	1,000
	18,993,562	5,690,762

1. INCORPORATING ACTS AND TYPES OF ACTIVITIES

The Company, incorporated under part 1A of the Quebec *Companies Act* and subject to the provisions of the Quebec *Business Corporations Act*, serves as a petroleum and gas exploration company. It has been listed on the TSX-V 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, and the Company's long-term profitability is tied in part to the cost and success of the exploration programs and subsequent development. The Company has not yet established whether its properties contain economically feasible reserves.

Financial statements from the reporting period ended June 30, 2012 (including comparative statements) were approved for publication by the Board of Directors on August 22, 2012.

2. BASIS OF PRESENTATION

Basis of presentation

These financial statements were prepared in accordance with IAS 34, "Interim Financial Reporting." They are part of the period covered by the first financial statements presented according to IFRS and IFRS 1, *First-Time Adoption of International Financial Reporting Standards* was applied. The effect of the changeover to IFRS on the statement of financial position and cash flows presented by the Company is explained in Note 22.

The preparation of interim condensed financial statements in accordance with IAS 34 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian Generally Accepted Accounting Principles ("GAAP").

The IFRS accounting policies set out in the Company's financial statements for the quarter ended December 31, 2011 have been consistently applied to each of the periods presented. They were also applied in preparing the statement of financial position as at October 1, 2010 for the purpose of transition to IFRS, as required by IFRS 1. Please refer to Note 4 of the Company's interim financial statement for the quarter ended December 31, 2011 for a full description of the Company's main accounting practices.

The preparation of financial statements in conformity with IAS 34 guidelines requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant, are disclosed in Note 5 of the financial statements for the quarter ended December 31, 2011, and also apply to the nine months ended June 30, 2012.

These financial statements were prepared under the historical cost method, with the exception of some financial instruments, which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets at the time of the transaction.

These interim financial statements are intended to provide an update on the latest complete set of annual financial statements and on the interim financial statements prepared under IFRS, i.e. for the quarter ended December 31, 2011. Consequently, they do not include all the information required for annual financial statements and should be read in conjunction with Pétrolia's last audited annual financial statements and first interim financial statements prepared under IFRS, i.e. for the quarter ended December 31, 2011.

Standards and interpretations issued but not yet effective

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2013, with earlier application permitted:

- IFRS 9, *Financial Instruments*, covers the classification and measurement of financial assets and financial liabilities.
- IFRS 10, *Consolidated Financial Statements*, ("IFRS 10") and IFRS 12, *Disclosure of Interests in Other Entities*, ("IFRS 12"). The first standard replaces IAS 27, *Consolidated and Separate Financial Statements* and SIC-12, *Consolidation – Special Purpose Entities*, and establishes principles for identifying when an entity controls other entities. The second standard establishes comprehensive disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, and special purpose vehicles.
- IFRS 11, *Joint Arrangements*, ("IFRS 11") replaces IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*, and requires a single method to account for interests in jointly controlled entities.
- Amended and re-titled IAS 27, *Separate Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*, as a consequence of the new IFRS 10, IFRS 11 and IFRS 12.
- IFRS 13, *Fair Value Measurement*, provides a single source of fair value measurement and disclosure requirements in IFRS.
- Amendments to IAS 1, *Presentation of Financial Statements*, to require entities to group items within other comprehensive income that may be reclassified to net income.

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

3. GOING CONCERN BASIS

The interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future.

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 future operations is dependent on management's ability to secure additional financing to fund exploration of its oil properties. While management has been successful on this front in the past, there can be no assurance it will be able to do so in the future. The Company has not yet determined whether its discoveries will be profitable.

Neither the carrying amounts of the assets and liabilities, revenues and expenses presented in the interim financial statements nor the classification used on the statement of financial position have been adjusted, as would be required if the going concern assumption was not appropriate. Such adjustments could be material. Management did not take these adjustments into account as it believes in the validity of the going concern assumption.

4. JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and contingent liabilities at the date of the financial statements and reported amounts for revenues and expenses during the reporting period. The Company also makes estimates and assumptions concerning the future. Making estimates requires using judgment based on various assumptions and other factors such as experience and current and projected economic conditions. Actual results may differ from these estimates.

The areas that require significant estimates and assumptions are set out in the financial statements for the quarter ended December 31, 2011.

Estimates and underlying assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following items:

	As at June 30, 2012 $	As at September 30, 2011 $
Bank balances and cash in hand	337,411	695,699
Guaranteed investment certificates	5,354,331	7,454,331
Money market fund	13,301,820	1,004
Less: cash held for exploration (1)	-	-
Cash and cash equivalents	18,993,562	8,151,034

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

On June 30, 2012, 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), expiring between December 22, 2012 and May 8, 2013. These instruments are cashable at any time without penalty.

6. RECEIVABLES

	As at June 30, 2012 $	As at September 30, 2011 $
Partner	648,105	981,613
Consumer tax credits	125,616	41,847
Tax credits receivable	783,909	3,318,935
Interest receivable	90,134	114,763
Other	92,194	160,213
	1,739,958	4,617,371

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.

7. INVESTMENTS

	As at June 30, 2012 $	As at September 30, 2011 $
Guaranteed investment certificate, 2.40%, cashable July 2011 and expiring July 2012	1,080,000	930,000
	1,080,000	930,000

8. EXPLORATION AND EVALUATION ASSETS

Oil and gas properties

	September 30, 2011 $	Write-off $	Additions $	June 30, 2012 $
Quebec				
Anticosti [1]	296,297	-	44,578	340,875
Gastonguay	664,398	-	-	664,398
Gaspésia – Edgar – Marcel – Tremblay	404,933	-	-	404,933
Gaspé [1]	1,635,540	-	1,696,943	3,332,483
New Brunswick				
Dalhousie	146,837	(7,311)	-	139,526
Oil and gas property totals	3,148,005	(7,311)	1,741,521	4,882,215

Exploration expenses

	September 30, 2011 $	Write-off $	Additions $	June 30, 2012 $
Quebec				
Anticosti	6,341,925	-	192,877	6,534,802
Gastonguay	74,638	-	397	75,035
Gaspésia – Edgar – Marcel – Tremblay	3,730,267	-	39,017	3,769,284
Gaspé	2,450,597	-	176,513	2,627,110
Bourque project	3,668,983	-	171,432	3,840,415
Haldimand project	11,198,581	-	1,849,983	13,048,564
Tar Point No. 1 project	4,955,679	-	324,731	5,280,410
New Brunswick				
Dalhousie	1,143,494	(281,778)	-	861,716
	33,564,164	(281,778)	2,754,950	36,037,336
Less:				
Exploration subsidies and partner contributions				
Anticosti	2,280,008	-	67,013	2,347,021
Gastonguay	18,796	-	112	18,908
Gaspésia – Edgar – Marcel – Tremblay	411,354	-	11,404	422,758
Gaspé	550,176	-	64,461	614,637
Bourque project	3,060,535	-	58,898	3,119,433
Haldimand project	3,667,265	-	1,616,005	5,283,270
Tar Point No. 1 project	796,565	-	291,703	1,088,268
Dalhousie	6,922	-	-	6,922
	10,791621		2,109,596	12,901,217
Income from evaluation of oil reserves:				
Gaspé				
Haldimand project	216,759	-	29,453	246,212
Total exploration expenses	22,555,784	(281,778)	615,901	22,889,907

Summary as at June 30, 2012	September 30, 2011 $	Write-off $	Additions $	June 30, 2012 $
Properties	3,148,005	(7,311)	1,741,521	4,882,215
Exploration expenses	22,555,784	(281,778)	615,901	22,889,907
Exploration and evaluation assets	25,703,789	(289,089)	2,357,422	27,772,122

Oil and gas properties

	October 1, 2010 $	Disposal $	Additions $	September 30, 2011 $
Quebec				
Anticosti [1]	259,970	-	36,327	296,297
Gastonguay	638,497	-	25,901	664,398
Gaspésia – Edgar – Marcel – Tremblay	382,915	-	22,018	404,933
Gaspé [1]	2,427,941	(806,060)	13,659	1,635,540
New Brunswick				
Dalhousie	143,306	-	3,531	146,837
Oil and gas property totals	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	10,791621
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 as at September 30, 2011	October 1, 2010 $	Disposal $	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 should they become productive. To date, the Company has satisfied all required obligations and lists only its future or potential obligations and special transactions of the year below.

Gaspé 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 of 0.5% to 2.5% on the future production of hydrocarbons. In June 2010, the Company carried out an asset exchange, increasing its interest to 100% in all Gaspé leases, a 150-km^2 territory, with the exception of a 9-km^2 zone in which it holds a 64% interest (Haldimand property). On December 20, 2010, the Company signed definitive agreements for the sale of 50% of its interests in the Haldimand discovery as well as in 13 leases surrounding this discovery to Québénergie Inc. (subsidiary of Investcan) for the sum of $15,190,000. 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 defined a development area of 9 km^2 around the Pétrolia Haldimand No. 1 well in which Pétrolia held a 45% interest, Junex 45% and Gastem 10%. Some of the licences to these properties are subject to royalty payments of 5%. Under an amendment to the original agreement signed July 22, 2009, Pétrolia became the operator of the entire 9-km^2 development area. On October 1, 2009, Pétrolia acquired all of Gastem's interest. Following its decision not to participate in the drilling of a second well, Junex saw its ownership interest decrease by 9%. After signing definitive agreements to sell 50% of the interests in the Haldimand discovery, Haldimand's ownership is as follows: Pétrolia – 32%, Québenergié – 32% and Junex – 36%.

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

Bourque property

A few years ago, the Company signed a $20 million farmout agreement with Pilatus Energy Canada. By investing $20 million in exploration and development work over five years, Pilatus would have obtained a 70% stake in the four licences granted for the Bourque project.

Unfortunately, the difficult economic situation in 2009 prevented Pilatus from meeting the obligations stipulated in the agreement signed with Pétrolia. The parties both agreed to terminate the initial agreement and in exchange Pilatus obtained a 5% stake in the project.

Anticosti property

The Company acquired all of Hydro-Québec's rights on Anticosti Island in return for an overriding royalty on oil production. Under this agreement, Pétrolia shares a 25% interest with Corridor Resources Inc. in six licences and 50% in 29 exploration licences on the island and acts as an operator for most of them. In June 2010, the Company participated in the drilling of three exploration wells and extracted a core sample to evaluate the McCasty formation's potential as a shale gas reservoir. Once its obtains the results of the core sample analysis, the Company plans to undertake development work in order to better estimate the oil potential of Anticosti Island.

9. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Office equipment	Rolling stock	Reservoirs and construction facilities	Sites	Total
	$	$	$	$	$	$
Cost						
Balance as at October 1, 2011	565,179	266,809	236,187	115,739	75,434	1,259,348
Additions	12,304	22,069	8,301	243,417		286,091
Disposal	-	-	-	-	-	-
Balance as at June 30, 2012	577,483	288,878	244,488	359,156	75,434	1,545,439
Accumulated depreciation						
Balance as at October 1, 2011	65,807	96,046	157,594	8,122	-	327,569
Retirement	-	-	-	-	-	-
Depreciation	119,631	32,076	18,721	19,183	-	189,611
Balance as at June 30, 2012	185,438	128,122	176,315	27,305	-	517,180
Book value as at June 30, 2012	392,045	160,756	68,173	331,851	75,434	1,028,259
Book value as at September 30, 2011	499,372	170,763	78,593	107,617	75,434	931,779

	Leasehold improvements	Office equipment	Rolling stock	Reservoirs	Sites	Total
	$	$	$	$	$	$
Cost						
Balance as at October 1, 2010	18,387	160,040	236,187	-	-	414,614
Additions	369,609	47,398	-	56,713	64,007	537,727
Disposal	-	-	-	-	-	-
Balance as at June 30, 2011	387,996	207,438	236,187	56,713	64,007	952,341
Accumulated depreciation						
Balance as at October 1, 2010	16,831	60,713	123,911	-	-	201,455
Retirement	-	-	-	-	-	-
Depreciation	12,017	20,477	25,262	2,835	-	60,491
Balance as at June 30, 2011	28,848	81,190	149,173	2,835	-	262,046
Book value as at June 30, 2011						
Book value as at October 1, 2010	1,566	99,327	112,276	-	-	213,159

10. SUPPLIERS AND OTHER CREDITORS

	As at June 30, 2012	As at September 30, 2011
	$	$
Security deposits from partners	307,500	-
Trade and other payables	961,072	895,924
Accrued liabilities	400,323	570,022
Related parties	-	3,572
	1,668,895	1,469,518

11. LOANS AND BORROWINGS

	As at June 30, 2012	As at September 30, 2011
	$	$
Bank loan, in the amount of $2,500,000, bearing interest at Caisse Centrale Desjardins' prime rate plus 1%, secured by a mortgage of $2,500,000 on the Company's current and future claims and receivables, with a first priority claim on refundable tax credits and future tax credits, as well as an 80% surety from Investissement Québec. The principal was repaid during the first quarter.		
	-	2,243,310

12. PROVISION FOR SITE RESTORATION

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

At June 30, 2012, the future estimated total required to settle obligations related to site restoration, indexed at 3.5%, was $331,678. An amount 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 payment schedule ranging from 1 to 30 years. The total undiscounted amount of the estimated cash flow required to settle this obligation is $331,678.

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

	As at June 30, 2012	As at September 30, 2011
	$	$
Balance, beginning of period	-	-
Liabilities incurred	331,678	369,178
Balance, end of period	331,678	369,178
Portion of liability to be settled during the following fiscal year	98,000	135,500
	233,678	233,678

13. SHARE CAPITAL

Authorized

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

Issued:	**Nine months ended June 30, 2012**		**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:	11,091,552	15,000,003		
Debt repayment	-	-	75,000	33,750
Warrants exercised	264,721	1,094,140	3,878,440	4,505,472
Exercise of stock options	650,000	460,208	558,750	487,748
Future taxes	-	(521,750)		10,068
Share issuance costs	-	(3)		(834)
Balance, end of period	66,585,750	51,485,453	54,579,477	35,452,855

Warrants

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

	Nine months ended June 30, 2012		**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
Granted	5,545,777	1.78	-	-
Exercised	(264,721)	1.30	(3,878,440)	1.15
Expired	-	-	(6,103,332)	1.27
Balance, end of period	5,545,777	1.78	264,721	1.30

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

	Nine months ended June 30, 2012		**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
May 15, 2015	5,545,777	1.78	-	-

14. LEASES

	Minimum lease payments due		
	Less than 1 year	**1 to 5 years**	**Total**
	$	$	$
June 30, 2012	286,059	806,106	1,092,165
September 30, 2011	275,306	1,009,239	1,284,545

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

Lease payments recognized as expenses during the reporting period total $202,252 ($86,657 in 2011). This amount represents minimum lease payments. No sublease or contingent rent payment was recognized as an expense. An amount of $8,982 ($0 in 2011) 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.

15. EMPLOYEE REMUNERATION

Employee benefits expense

Expenses recognized for employee benefits are analyzed below:

	As at June 30, 2012	As at September 30, 2011
	$	$
Wages, salaries	1,628,082	1,592,822
Share-based payments	639,692	500,208
	2,267,774	2,093,030
Less: salaries capitalized in exploration and evaluation assets	933,016	917,010
Employee benefits expense	1,114,758	1,176,020

Share-based compensation

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

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

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

	Nine months ended June 30, 2012		Fiscal year ended September 30, 2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		$		$
Outstanding at the beginning of period	3,276,250	0.84	2,965,000	0.64
Granted	1,341,000	1.52	1,495,000	0.94
Exercised	(650,000)	0.43	(558,750)	0.53
Expired	(261,250)	0.82	(625,000)	0.40
Outstanding at end of period	3,706,000	1.13	3,276,250	0.84
Exercisable	2,121,500	1.06	2,198,750	0.80

The following table reflects stock options issued and outstanding at June 30, 2012:

Options outstanding

Number of options	Exercise price	Time to maturity	Expiration date
	$	years	
400,000	0.60	0.87	February 12, 2013
327,500	1.25	1.27	July 7, 2013
120,000	0.74	2.14	May 21, 2014
270,000	0.89	2.91	February 25, 2015
672,500	0.50	3.69	December 8, 2015
75,000	1.31	3.91	February 25, 2016
500,000	1.69	4.13	May 18, 2016
1,266,000	1.52	4.68	December 4, 2016
75,000	1.51	4.90	February 22, 2017

The following table reflects stock options issued and outstanding at 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 grant date fair value of the options granted in fiscal 2011 was $0.85 per option ($0.68 for the 2010 fiscal year).

The fair value of the options granted during the period was calculated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	February 2012	**December 2011**	**May 2011**	**February 2011**
Share price at grant date	1.51	1.52	1.69	1.31
Risk-free interest rate	3%	3%	3%	3%
Average expected volatility	91%	91%	94%	94%
Average expected life (years)	5	1–5	5	5
Expected dividend yield	Nil	Nil	Nil	Nil

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

Accordingly, the share-based compensation was allocated as follows:

	March 2012	December 2011	May 2011	February 2011
	$	$	$	$
Statement of income	36,968	469,741	153,625	71,400
Deferred exploration expenses	43,732	89,251	7,125	-
Total	80,700	558,992	160,750	71,400

16. FINANCIAL INCOME

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

	As at June 30, 2012	As at June 30, 2011
	$	$
Interest income from cash and cash equivalents	145,622	85,574
Interest income from receivables	-	-
Financial income	145,622	85,574

17. EARNINGS PER SHARE

Basic earnings per share have been calculated by dividing net income for the fiscal year by the weighted average number of common shares outstanding during the period. For purposes of calculating diluted earnings per share, potential common shares such as certain options and certain warrants were not included because their conversion would have decreased the loss per share and thus had an anti-dilutive effect.

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

	As at June 30, 2012	As at September 30, 2011
Net income	(2,524,904)	2,160,668
Basic weighted average number of common shares	56,302,504	51,249,243
Basic earnings per common share	(0.045)	0.042
Weighted average number of diluted common shares	n/a	52,590,389
Diluted earnings per common share	n/a	0.041

18. RELATED PARTY TRANSACTIONS

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

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

Transactions with key management personnel

Key management personnel remuneration includes the following expenses:

	Nine months ended June 30, 2012	Nine months ended June 30, 2011
	$	**$**
Short-term employee benefits:	-	-
Salaries and benefits	419,135	270,265
Attendance fees	94,915	84,484
Total short-term benefits	514,050	354,749
Share-based payments	410,944	435,726
Total remuneration	924,994	790,475

During the 2012 reporting period, key management exercised 497,500 options granted under the share-based compensation plan (312,500 options in 2011).

Related companies

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

	Nine months ended June 30, 2012	Nine months ended June 30, 2011
	$	**$**
Statement of financial position:		
Exploration and evaluation assets	2,394	-
Income:		
Other expenses	6,830	7,052

Accounts receivable from these companies is $26,067 at June 30, 2012 (2011 – $28,239).

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

	Nine months ended June 30,	
	2012	**2011**
	$	**$**
Statement of financial position:		
Exploration and evaluation assets	2,062	3,469

The balance owed to this director is $0 as at March 31, 2012 (2011 – $0).

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

	Nine months ended June 30,	
	2012	**2011**
	$	**$**
Income:		
Salaries and benefits	2,716	17,193
Office supplies	700	800

The balance due from this company as at June 30, 2012 is $2,900 (2011 – $808).

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

	Nine months ended June 30,	
	2012	**2011**
	$	**$**
Statement of financial position:		
Property, plant and equipment	8,607	17,919
Income:		
Office maintenance	4,806	-

The balance owing this supplier is $0 as at June 30, 2012 (2011 – $0).

Management considers that these transactions were concluded on an arm's length basis. These transactions took place in the normal course of business and were measured at their exchange value, which is the consideration established and accepted by related parties.

19. CAPITAL MANAGEMENT

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

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

There were no material changes to the Company's capital management policies and procedures during the period ended June 30, 2012. 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 to exploration activities.

20. CONTINGENCIES

Environment and letters of guarantee

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

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

On January 5, 2012, a motion to institute proceedings (action on account) was filed against the Company. The amount claimed is $198,832. The Company plans to contest the claims made in the motion since the supplier is unable to provide sufficient proof and documentation to justify the amounts invoiced. If the Court finds against the Company, there will be no impact on its financial results as the Company has made a provision for the full amount.

21. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental information

	June 30, 2012 $	**June 30, 2011 $**
Interest paid	15,505	66,584
Interest received	143,367	-
Dividends paid	**n/a**	**n/a**
Dividends received	**n/a**	**n/a**

22. TRANSITION TO IFRS STANDARDS

The transition exemption elected by the Company for the transition from Canadian GAAP to IFRS as well as the additional information on an IFRS basis for the year ended September 30, 2011 considered relevant to an understanding of the interim financial statements for the three-month period ended December 31, 2011 are summarized in Note 26.

The effect of the Company's transition from Canadian GAAP to IRFS as at June 30, 2011 and for the three and nine months then ended is presented as follows:

A) Reconciliation of equity and comprehensive income reported under Canadian GAAP and IFRS

B) Adjustment to the statement of cash flows

C) Notes to the reconciliations

A) Reconciliation of equity and comprehensive income reported under Canadian GAAP and IFRS

Statement of financial position as at June 30, 2011

Canadian GAAP items	Previous Canadian GAAP		Effect of transition to IFRS	IFRS	IFRS items
	$		$	$	
ASSETS					**ASSETS**
CURRENT ASSETS					**CURRENT**
Cash and cash equivalents	5,690,762		-	5,690,762	Cash and cash equivalents
Receivables	3,628,483		-	3,628,483	Receivables
Inventories	67,248		-	67,248	Inventories
Prepaid expenses	54,374		-	54,374	Prepaid expenses
Investments cashable during the next fiscal year	754,331		-	754,331	Investments cashable during the next fiscal year
	10,195,198		-	10,195,198	Total current assets
					NON-CURRENT
Capital assets	690,295		-	690,295	Property, plant and equipment
		a)	25,519,059	25,524,055	Exploration and evaluation assets
		c)	4,996		
Oil and gas properties	3,158,029		(3,158,029)	-	
Deferred exploration expenses	22,361,030		(22,361,030)	-	
	26,209,354		4,996	26,214,350	Total non-current assets
	36,404,552		4,996	36,409,548	Total assets
LIABILITIES					**LIABILITIES**
CURRENT LIABILITIES					**CURRENT**
Trade and other payables	1,361,776		-	1,361,776	Suppliers and other creditors
Loan	2,243,310		-	2,243,310	Loans and borrowings
	3,605,086		-	3,605,086	
					NON-CURRENT
Future taxes	2,442,437		-	2,442,437	Deferred tax liabilities
	6,047,523		-	6,047,523	Total liabilities
SHAREHOLDERS' EQUITY		b)	2,793,592		**EQUITY**
		b)	(637,500)		
Share capital	29,244,780	e)	(28,315)	31,372,557	Share capital
			185,264		
Contributed surplus – Stock options	1,371,762	d)	903,797	2,460,823	Other components of equity
Contributed surplus – Expired stock options	903,797	d)	(903,797)	-	
		b)	(2,793,592)		
		c)	(180,268)		
		b)	637,500		
Deficit	(1,163,310)	e)	28,315	(3,471,355)	Deficit
	30,357,029			30,362,025	Total equity
	36,404,552			36,409,548	Total liabilities and equity

Statement of income and comprehensive income for the three-month period ended June 30, 2011

Canadian GAAP items	Previous Canadian GAAP	Effect of transition to IFRS	IFRS	IFRS items
	$	$	$	
REVENUE				**OTHER REVENUE**
Project management	17,708	-	17,708	Project management
Interest income	33,665	-	33,665	Revenue from cash a nd cash equivalents
	51,373	-	51,373	
OPERATING AND ADMINISTRATIVE EXPENSES				**ADMINISTRATIVE EXPENSES**
Share-based compensation	160,750	183,875	344,625	Share-based compensation
Salaries and benefits	433,119	-	433,119	Salaries and benefits
Insurance	15,569	-	15,569	Insurance
Travel	43,816	-	43,816	Travel
Office supplies	15,297	-	15,297	Office supplies
Training	1,300	-	1,300	Training
Board of Directors expenses	48,840	-	48,840	Board of Directors fees
Information for shareholders	8,694	-	8,694	Information for shareholders
Interest and bank fees	21,841	-	21,841	Interest and bank fees
Office rent	31,999	-	31,999	Office rent
Promotion and entertainment	16,582	-	16,582	Promotion and entertainment
Professional fees	49,484	-	49,484	Professional fees
Telecommunications	5,402	-	5,402	Telecommunications
Depreciation of capital assets	27,134	-	27,134	Depreciation of property, plant and equipment
Other expenses	102	-	102	Other expenses
Allocation to deferred exploration work	(268,315)	-	(268,315)	Allocation to exploration and evaluation assets
	611,614	183,875	795,489	
OTHER ITEMS				**OTHER ITEMS**
Gain (loss) on disposal of interest in certain licences	(71,851)	-	(71,851)	Gain (loss) on disposal of interest in certain licences
	(632,092)	183,875	(815,967)	
EARNINGS BEFORE INCOME TAXES				**NET INCOME BEFORE INCOME TAXES**
Future income taxes	(143,456)	-	(143,456)	Deferred tax expense
NET INCOME AND COMPREHENSIVE INCOME	(488,636)		(672,511)	**NET INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD**
BASIC EARNINGS PER SHARE	(0.010)		(0.013)	**BASIC EARNINGS PER SHARE**
DILUTED EARNINGS PER SHARE	(0.010)		(0.013)	**DILUTED EARNINGS PER SHARE**

Statement of income and comprehensive income for the nine-month period ended June 30, 2011

Canadian GAAP items	Previous Canadian GAAP	Effect of transition to IFRS	IFRS	IFRS items
	$	$	$	
REVENUE				**OTHER REVENUE**
Project management	17,708	-	17,708	Project management
Interest income	85,574	-	85,574	Revenue from cash a nd cash equivalents
	103,282	-	103,282	
OPERATING AND ADMINISTRATIVE EXPENSES				**ADMINISTRATIVE EXPENSES**
Share-based compensation	314,950	180,268	495,218	Share-based compensation
Salaries and benefits	1,253,256	-	1,253,256	Salaries and benefits
Insurance	42,475	-	42,475	Insurance
Travel	137,012	-	137,012	Travel
Office supplies	54,016	-	54,016	Office supplies
Training	6,713	-	6,713	Training
Board of Directors expenses	108,034	-	108,034	Board of Directors fees
Information for shareholders	69,852	-	69,852	Information for shareholders
Interest and bank fees	66,584	-	66,584	Interest and bank fees
Office rent	90,641	-	90,641	Office rent
Promotion and entertainment	69,863	-	69,863	Promotion and entertainment
Professional fees	155,291	-	155,291	Professional fees
Telecommunications	21,930	-	21,930	Telecommunications
Depreciation of capital assets	57,919	-	57,919	Depreciation of property, plant and equipment
Other expenses	78,525	-	78,525	Other expenses
Allocation to deferred exploration work	(808,446)	-	(808,446)	Allocation to exploration and evaluation assets
	1,666,615	180,268	1,846,883	
OTHER ITEMS				**OTHER ITEMS**
Gain on disposal of interest in certain licences	5,386,457	-	5,386,457	Gain on disposal of interest in certain licences
	5,386,457	-	5,386,457	
EARNINGS BEFORE INCOME TAXES	3,823,124	(180,268)	3,642,856	**NET INCOME BEFORE INCOME TAXES**
Future income taxes	(1,219,204)	-	(1,219,204)	Deferred tax expense
NET INCOME AND COMPREHENSIVE INCOME	2,603,920	(180,268)	2,423,652	**NET INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD**
BASIC EARNINGS PER SHARE	0.052		0.048	**BASIC EARNINGS PER SHARE**
DILUTED EARNINGS PER SHARE	0.046		0.043	**DILUTED EARNINGS PER SHARE**

B) Statement of cash flows

Under Canadian GAAP, interest paid and received was presented in the notes. Under IFRS, interest is classified under investing and financing activities. There are no other material adjustments to the statements of cash flows. The components of cash and cash equivalents under previous Canadian GAAP are similar to those presented under IFRS.

C) Notes to the reconciliations

The following notes explain the principal differences between previous Canadian GAAP and the IFRS accounting policies applied by the Company.

a) Exploration and evaluation assets

The items “Oil and gas properties” and "Deferred exploration costs” have been grouped for presentation purposes under “Exploration and evaluation assets.”

b) Accounting for flow-through shares

Under previous Canadian GAAP, the entire proceeds received on the issuance of flow-through shares were credited to share capital. When the tax deductions associated with exploration expenditures were renounced for income tax purposes, a deferred tax liability was recognized for the taxable temporary difference that arose, and the related charges were treated as share issuance costs.

Under IFRS, the issuance of flow-through shares is accounted for similarly to the issuance of a compound financial instrument. The liability component represents the obligation to revert the tax benefit to the investors. Proceeds from the issuance of shares by flow-through private placements are allocated between shares issued and a liability using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and any residual in the proceeds is allocated to the liability. The liability component is reversed in income as recovery of deferred income taxes when the eligible expenses are incurred.

As there is no exemption under IFRS 1 for first-time adopters regarding flow-through shares, the treatment under IFRS needs to be applied retroactively.

Effect:

Eligible expenses having been incurred, a liability of $637,500 was transferred from share capital to retained earnings on October 1, 2010. In addition, the deferred tax liability, at $2,793,592, was also transferred from share capital to retained earnings.

c) Share-based payments

Under previous Canadian GAAP, the fair value of share-based awards with graded vesting was calculated using the straight-line method over the length of service required for vesting. Forfeitures of stock options were recognized as they occurred.

Under IFRS 2, each tranche of a share-based award with different vesting dates is considered a separate grant for the fair value calculation. Each award is recognized according to the foregoing. In addition, the Company is required to estimate the number of forfeitures, 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 not to retroactively apply IFRS 2—“Share-based Payment”—to stock options granted before November 7, 2002, or to options granted after November 7, 2002, whose rights became acquired before the transition date.

Effect:

There was no effect at October 1, 2010.

On June 30, 2011, an increase of $183,875 in share-based compensation was recorded in income for the period.

d) Presentation differences

Certain presentation differences between the accounting practices in effect before the changeover and IFRS have no effect on the income presented or on equity, specifically regarding contributed surplus – expired stock options.

As the following tables show, some 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 on shareholders' equity.

e) Change in rates used to calculate deferred income taxes

Under previous Canadian GAAP, an entity had to show in income the changes previously brought to tax rates and tax laws for amounts previously recognized in other items of comprehensive income or equity.

IFRS requires that certain items be directly recognized in 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 equity.

Effect:

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

SCHEDULES

	2012 $ (three months)	2011 $ (three months)	2012 $ (nine months)	2011 $ (nine months)
A – ADMINISTRATIVE EXPENSES				
Share-based compensation	-	337,500	506,709	453,893
Salaries and benefits	419,034	223,129	828,049	577,199
Insurance	16,461	14,822	45,270	40,234
Maintenance and office supplies	30,657	10,558	82,741	32,392
Board of Directors fees	43,583	48,840	131,029	108,034
Information for shareholders	9,753	8,694	76,151	69,852
Office rent	29,788	19,777	94,960	52,157
Promotion and entertainment	58,247	16,582	225,459	69,863
Transportation	49,683	34,789	137,777	104,420
Professional fees	196,214	40,340	510,195	146,147
Capital tax	-	-	(12,663)	-
Telecommunications	3,166	3,202	9,669	14,640
Depreciation of property, plant and equipment	29,535	16,161	87,399	36,203
Other expenses	607	9,584	3,225	17,066
	886,728	784,356	2,725,970	1,722,100
B – OPERATING EXPENSES				
Share-based compensation	-	7,125	132,983	41,325
Salaries and benefits	283,429	209,990	800,033	676,057
Insurance	997	747	10,606	2,241
Maintenance and office supplies	9,150	4,739	28,469	21,624
Transportation	4,781	9,027	22,020	32,592
Training	5,522	1,300	8,269	6,713
Office rent	39,384	12,222	110,934	38,484
Professional fees	-	9,144	3,469	9,144
Telecommunications	2,163	2,200	6,973	7,290
Depreciation of property, plant and equipment	34,383	10,973	102,216	21,716
Other expenses	1,907	848	5,656	3,260
Allocation to deferred exploration work	(297,238)	(279,867)	(1,071,438)	(805,005)
Under (over) charge	84,478	(11,552)	160,190	55,441
C – FINANCE INCOME AND EXPENSES				
Interest income (Note 17)	(46,848)	(33,665)	(145,622)	(85,574)
Bank fees	1,429	843	4,361	2,758
Interest on debt	-	21,841	8,315	66,584
	(45,419)	(10,981)	(132,946)	(16,232)