Leader en exploration pétrolière au Québec

SECOND QUARTER

Unaudited Interim Financial Statements

for the six months ended March 31, 2012 and 2011

212, avenue de la Cathédrale, Rimouski (Québec) Canada G5L 5J2 • 418 724 0112 • www.petroliagaz.com

UNAUDITED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED

MARCH 31, 2012 AND 2011

UNAUDITED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED

March 31, 2012 and 2011

Declaration Concerning the Interim Financial Statements

The administration prepared Pétrolia Inc.'s interim financial statements for the second quarter ended March 31, 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 March 31, 2012 $	As at September 20, 2011 $
ASSETS		
Current		
Cash and cash equivalents (Note 5)	6,228,297	8,151,034
Receivables (Note 7)	2,148,990	4,617,371
Prepaid expenses	50,530	141,158
Inventories	61,619	61,619
Investments cashable during the next fiscal year (Note 8)	930,000	930,000
	9,419,436	13,901,182
Non-current		
Exploration and evaluation assets (Note 8)	27,515,659	25,703,789
Property, plant and equipment (Note 9)	889,781	931,779
	28,405,440	26,635,568
	37,824,876	40,536,750
LIABILITIES		
Current		
Suppliers and other creditors (Note 10)	2,312,476	1,469,518
Loans and borrowings (Note 11)	-	2,243,310
Provision for site restoration (Note 12)	98,000	135,500
	2,410,476	3,848,328
Non-current		
Deferred lease inducements	114,169	112,273
Provision for site restoration (Note 12)	233,678	233,678
Deferred tax liabilities	1,795,255	2,239,130
	2,143,102	2,585,081
	4,553,578	6,433,409
EQUITY		
Share capital (Note 13)	35 854 692	35,452,855
Other components of equity	3 011 109	2,395,117
Deficit	(5 594 503)	(3,744,631)
	33,271,298	34,103,341
	37,824,876	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) *Jacques L. Drouin*
Director

INTERIM STATEMENTS OF COMPREHENSIVE INCOME

(unaudited – in Canadian dollars)

	Three months ended March 31		Six months ended March 31	
	2012 **$**	**2011** **$**	**2012** **$**	**2011** **$**
REVENUE				
Rental revenue	2,994	-	5,988	-
Project income	5,902	-	22,178	-
	8,896	-	28,166	-
				937,744
ADMINISTRATIVE EXPENSES (Appendix A)	930,186	504,423	1,839,242	66,992
OPERATING EXPENSES (Appendix B)	42,110	29,759	75,712	
FINANCE INCOME AND FINANCE COSTS (Appendix C)	(37,582)	(22,049)	(87,527)	(5,250)
	934,714	512,133	1,827,427	999,486
LOSS BEFORE OTHER ITEMS AND INCOME TAXES	(925,818)	(512,133)	(1,799,261)	(999,486)
OTHER ITEMS				
Gain (loss) on disposal of interest in certain licenses	-	-	(494,486)	5,386,457
NET INCOME (LOSS) BEFORE INCOME TAXES	(925,818)	(512,133)	(2,293,747)	4,386,971
Deferred tax expense	(226,588)	(122,637)	(443,875)	(1,290,809)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME FOR THE PERIOD	(699,230)	(389,496)	(1,849,872)	3,096,162
BASIC EARNINGS (LOSS) PER SHARE	(0.013)	(0.008)	(0.035)	0.062
DILUTED EARNINGS (LOSS) PER SHARE	(0.013)	(0.008)	(0.035)	0.056

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	289,196	(100,451)	-	188,745
Stock issuance costs	(252)	-	-	(252)
Share-based compensation cost		150,593	-	150,593
Comprehensive income	-	-	3,096,162	3,096,162
Unaudited balance at March 31, 2011	30,739,345	2,134,123	(2,798,845)	30,074,623
Unaudited balance at September 30, 2011	35,452,855	2,395,117	(3,744,631)	34,103,341
Warrants exercised	344,137	-	-	344,137
Exercise of options	57,700	(23,700)	-	34,000
Share-based compensation cost	-	639,692	-	639,692
Comprehensive loss	-	-	(1,849,872)	(1,849,872)
Unaudited balance at March 31, 2012	35,854,692	3,011,109	(5,594,503)	33,271,298

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited - in Canadian dollars)

	Six months ended March 31	
	2012	**2011**
	$	**$**
OPERATING ACTIVITIES		
Receipts (loss)	(1,849,872)	3,096,162
Items not affecting cash:		
Depreciation	125,695	30,783
Deferred income tax expense	(443,875)	1,290,810
Share-based compensation	615,992	116,393
Depreciation of deferred rental incentives	1,896	-
Gain on disposal of interest in certain licenses	-	(5,386,457)
	(1,550,164)	(852,309)
Net change in non-cash working capital items:		
Receivables	(112,864)	(487,571)
Prepaid expenses	90,628	1,625
Inventories	-	(56,840)
Suppliers and other creditors	623,057	539,132
	600,821	(3,654)
FINANCING ACTIVITIES		
Issuance of shares	401,837	217,499
Repayment of bank debt	(2,243,310)	(252)
	(1,841,473)	217,247
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(83,697)	(98,100)
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	(1,732,521)	(23,952)
Increase in deferred exploration expenses net of deductions	2,684,297	(1,268,152)
	868,079	(4,802,314)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,922,737)	4,163,598
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	8,151,034	1,949,055
CASH AND CASH EQUIVALENTS, END OF PERIOD (Note 6)	6,228,297	6,112,653
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash	373,966	308,153
Guaranteed investment certificates (redeemable at any time)	5,854,331	5,803,500
Money market fund	-	1,000
	6,228,297	6,112,653

1. INCORPORATING ACTS AND TYPES OF ACTIVITIES

The Company, incorporated under part 1A of the Québec *Companies Act* and subject to the provisions of the Québec *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 de la Cathédrale Avenue, Rimouski, Québec, 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 March 31, 2012 (including comparative statements) were approved for publication by the Board of Directors on May 11, 2012.

2. BASIS OF PRESENTATION

Basis of presentation

As this is the Company's first year of preparing financial statements in accordance with IFRS, these interim financial statements were prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34") and IFRS 1, *First-Time Adoption of International Financial Reporting Standards* ("IFRS 1"). The effect of the changeover to IFRS on the statement of financial position and cash flows 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 to 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 IFRS 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 2 in the Company's interim financial statements for the year ended December 31, 2011 for a complete description of the Company's accounting policies.

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 six months ended March 31, 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 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") supersedes 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:

	At March 31, 2012 $	**At September 30, 2011 $**
Bank balances and cash in hand	373,966	695,699
Guaranteed investment certificates	5,854,331	7,454,331
Money market fund	-	1,004
Less: cash held for exploration (1)	-	-
Cash and cash equivalents	6,228,297	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 March 31, 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

	At March 31, 2012 $	At September 30, 2011 $
Partner	1,178,722	981,613
Consumer tax credits	139,025	41,847
Tax credits receivable	690,543	3,318,935
Interest receivable	53,269	114,763
Others	87,431	160,213
	2,148,990	4,617,371

Tax credits relate to claims that have not year 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

	Six months ended March 31	
	2012 $	2011 $
Guaranteed investment certificate, 2.40%, cashable July 2011 and expiring July 2012	930,000	930,000
	930,000	930,000

8. EXPLORATION AND EVALUATION ASSETS

Oil and gas properties	September 30, 2011 $	Write-off $	Additions $	March 31, 2012 $
Québec				
Anticosti	296,297	-	44,578	340,875
Gastonguay	664,398	-	-	664,398
Gaspésia- Edgar- Marcel –Tremblay	404,933	-	-	404,933
Gaspé [1]	1,635,540	-	1,695,254	3,330,794
New Brunswick				
Dalhousie	146,837	(7,311)	-	139,526
Oil and gas property totals	3,148,005	(7,311)	1,739,832	4,880,526

Exploration expenses	September 30, 2011 $	Write-off $	Additions $	March 31, 2012 $
Québec				
Anticosti	6,341,925	-	116,154	6,458,079
Gastonguay	74,638	-	77	74,715
Gaspésia- Edgar- Marcel- Tremblay	3,730,267	-	28,302	3,758,569
Gaspé	2,450,597	-	106,375	2,556,972
Bourque project	3,668,983	-	70,834	3,739,817
Haldimand project	11,198,581	-	1,623,383	12,821,964
Tar Point No. 1 project	4,955,679	-	325,931	5,281,610
New Brunswick				
Dalhousie	1,143,494	(281,778)	-	861,716
	33,564,164	(281,778)	2,271,056	35,553,442
Less:				
Exploration subsidies and partner contributions:				
Anticosti	2,280,008	-	40,160	2,320,168
Gastonguay	18,796	-	-	18,796
Gaspésia-Edgar-Marcel-Tremblay	411,354	-	7,654	419,008
Gaspé	550,176	-	39,913	590,089
Bourque project	3,060,535	-	23,688	3,084,223
Haldimand project	3,667,265	-	1,479,251	5,146,516
Tar Point No. 1 project	796,565	-	289,810	1,086,375
Dalhousie	6,922	-	-	6,922
	10,791,621	-	1,880,476	12,672,097
Income from evaluation of oil reserves:				
Gaspé				
Haldimand project	216,759	-	29,453	246,212
Total exploration expenses	22,555,784	(281,778)	361,127	22,635,133

Summary as at March 31, 2012	September 30, 2011 $	Write-off $	Additions $	March 31, 2012 $
Properties	3,148,005	(7,311)	1,739,832	4,880,526
Exploration expenses	22,555,784	(281,778)	361,127	22,635,133
Exploration and evaluation assets	25,703,789	(289,089)	2,100,959	27,515,659

Oil and gas properties

	October 1, 2010 $	Disposal $	Additions $	September 30, 2011 $
Québec				
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 $
Québec				
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 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 licenses 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 licenses 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.

Consequently, Pétrolia has actively resumed its efforts to find a new partner to develop this 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 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 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	Sites	Total
	$	$	$	$	$	$
Cost						
Balance, October 1, 2011	565,179	266,809	236,187	115,739	75,434	1,259,348
Additions	12,304	5,783	8,301	57,309	-	83,697
Disposals	-	-	-	-	-	-
Balance, March 31, 2012	577,483	272,592	244,488	173,048	75,434	1,343,045
Accumulated depreciation						
Balance, October 1, 2011	65,807	96,046	157,594	8,122	-	327,569
Retirement	-	-	-	-	-	-
Depreciation	79,734	20,991	12,204	12,766	-	125,695
Balance, March 31, 2012	145,541	117,037	169,798	20,888	-	453,264
Net book value at March 31, 2012	431,942	155,555	74,690	152,160	75,434	889,781
Net book value 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, October 1, 2010	18,387	160,040	236,187	-	-	414,614
Additions	96,740	19,241	-	-	1,900	117,881
Disposals	-	-	-	-	-	-
Balance, March 31, 2011	115,127	179,281	236,187	-	1,900	532,495
Accumulated depreciation						
Balance, October 1, 2010	16,831	60,713	123,911	-	-	201,455
Retirement	-	-	-	-	-	-
Depreciation	1,167	12,774	16,842	-	-	30,783
Balance, March 31, 2011	17,998	73,487	140,753	-	-	232,238
Net book value at December 31, 2010	97,129	105,794	95,434	-	1,900	300,257
Net book value at October 1, 2010	1,566	99,327	112,276	-	-	213,159

10. SUPPLIERS AND OTHER CREDITORS

	At March 31, 2012	At September 30, 2011
	$	$
Security deposits from partners	307,500	-
Trade and other payables	1,498,697	895,924
Accrued liabilities	506,279	570,022
Related parties	-	3,572
	2,312,476	1,469,518

11. LOANS AND BORROWINGS

	At March 31, 2012	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 March 31, 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:

	At March 31, 2012	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:	**Six months ended March 31, 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:				
Debt retirement	-	-	75,000	33,750
Warrants exercised	264,721	344,137	3,878,440	4,505,472
Exercise of stock options	60,000	57,700	558,750	487,748
Future taxes	-	-		10,068
Share issuance costs	-	-		(834)
Balance, end of period	54,904,198	35,854,692	54,579,477	35,452,855

Warrants

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

	Six months ended March 31, 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
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:

	Six months ended March 31, 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

14. LEASES

	Minimum lease payments due		
	Less than 1 year	1 to 5 years	Total
	$	$	$
March 31, 2012	291,599	875,201	1,166,800
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 $65,172 ($32,380 in 2011). This amount represents minimum lease payments. No sublease or contingent rent payment was recognized as an expense. An amount of $5,988 ($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:

Key management personnel remuneration includes the following expenses:

	At March 31, 2012	At September 30, 2011
	$	$
Wages, salaries	925,619	1,592,822
Share-based payments	639,692	500,208
	1,565,311	2,093,030
Less: salaries capitalized in exploration and evaluation assets	649,587	917,010
Employee benefits expenses	915,724	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:

	Six months ended March 31, 2012		Fiscal year ended September 30, 2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		$		$
Outstanding at 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	(60,000)	0.57	(558,750)	0.53
Expired	(255,000)	0.82	(625,000)	0.40
Outstanding at end of period	4,302,250	1.06	3,276,250	0.84
Exercisable	2,705,250	0.92	2,198,750	0.80

The following table reflects stock options issued and outstanding at March 31, 2012:

Options Outstanding

Number of options	Exercise price	Time to maturity	Expiration date
	$	Years	
21,250	0.74	0.14	May 21, 2012
537,500	0.40	0.22	June 21, 2012
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
710,000	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 ($0.65 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%
Expected volatility	91%	91%	94%	94%
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. FINANCE INCOME

Finance costs may be analyzed as follows for the reporting periods presented:

	At March 31, 2012	At March 31, 2011
	$	$
Interest income from cash and cash equivalents	39,555	45,386
Interest income from receivables	-	-
Finance income	39,555	45,386

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.

	At March 31, 2012	At September 30, 2011
Net income	(1,849,872)	2,160,668
Basic weighted average number of common shares	53,201,351	51,249,243
Basic earnings per common shares		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

	Six months ended March 31	
	2012	**2011**
	$	**$**
Short-term employee benefits:	-	-
Salaries and benefits	243,337	177,784
Attendance fees	62,417	58,033
Total short-term benefits	305,754	235,817
Share-based payments	410,944	98,226
Total remuneration	716,698	334,043

During the 2011 reporting period, key management exercised 10,000 options granted under the share-based compensation plan.

Related companies

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

	Six months ended March 31	
	2012	**2011**
	$	**$**
Statement of financial position:		
Exploration and evaluation assets	2,394	-
Income:		
Other expenses	4,548	3,811

Accounts receivable from these companies are $23,884 at March 31, 2012 (2011 - $40,158).

The Company entered into transactions with a director acting as a consultant for the Company:

	Six months ended March 31	
	2012	**2011**
	$	**$**
Statement of financial position:		
Exploration and evaluation assets	2,062	3,469

The balance owing this director is $0 on March 31, 2012 (2011 – $0).

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

	Six months ended March 31	
	2012	**2011**
	$	**$**
Statement of financial position:		
Salaries and benefits	2,153	16,448
Office supplies	500	600

The balance due from this company on March 31, 2011 is $2,228 (2011 – $818).

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

	Six months ended March 31	
	2012	**2011**
	$	**$**
Statement of financial position:		
Property, plant and equipment	8,607	-

The balance owing this supplier is $0 on March 31, 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 POLICIES AND PROCEDURES

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 March 31, 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

Financing

The Company is partly financed by the issuance of flow-through shares and has fulfilled all its commitments in respect of future exploration work. However, there is no guarantee that its expenses will qualify as Canadian exploration expenses, even if the Company is committed to taking all the necessary measures in this regard. Refusal of certain expenses by the tax authorities would have a negative tax impact for investors.

Environment and letters of guarantee

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

These letters of guarantee are secured by guaranteed investment certificates 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 cannot 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

	March 31, 2012 $	**March 31, 2011 $**
Interest paid	15,505	44,743
Interest received	143,367	-
Dividends paid	s/o	s/o
Dividends received	s/o	s/o

22. FIRST-TIME ADOPTION OF IFRS

The exemption associated with the transition to IFRS adopted by the Company and supplemental information for the fiscal year ended September 30, 2011 considered helpful to understanding the financial statements following the Company's transition from Canadian GAAP to IFRS are summarized in Note 26 of the financial statements for the quarter ended December 31, 2011.

The effect of the transition at March 31, 2011 and for the three and six months ended on that date 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 March 31, 2011

Canadian GAAP items	**Previous Canadian GAAP**		**Effect of transition to IFRS**	**IFRS**	**IFRS items**
	$		**$**	**$**	
ASSETS					**ASSETS**
CURRENT					**CURRENT**
Cash and cash equivalents	6,112,653		-	6,112,653	Cash and cash equivalents
Receivables	3,699,460		-	3,699,460	Receivables
Inventories	56,840		-	56,840	Inventories
Prepaid expenses	68,747		-	68,747	Prepaid expenses
Investments cashable during the next fiscal year	754,331		-	754,331	Investments cashable during the next fiscal year
	10,692,031		-	10,692,031	Total current assets
					NON-CURRENT
Property, plant and equipment	300,257		-	300,257	Property, plant and equipment
	-	a)	25,311,288	25,316,284	Exploration and evaluation assets
		c)	4,996		
Oil and gas properties	3,070,521		(3,070,521)	-	
Deferred exploration expenses	22,240,767		(22,240,767)	-	
	25,611,545		4,996	25,616,541	Total non-current assets
	36,303,576		4,996	36,308,572	Total assets
LIABILITIES					**LIABILITIES**
CURRENT					**CURRENT**
Trade and other payables	1,376,247		-	1,376,247	Suppliers and other creditors
Loan	2,243,310		-	2,243,310	Loans and borrowings
	3,619,557		-	3,619,557	
					NON-CURRENT
Future taxes	2,614,392		-	2,614,392	Deferred tax liabilities
	6,233,949		-	6,233,949	Total liabilities
SHAREHOLDERS' EQUITY		b)	2,793,592		**EQUITY**
		b)	(637,500)		
Share capital	28,611,568	e)	(28,315)	30,739,345	Share capital
			1,389		
Contributed surplus – Stock options	1,228,937	d)	903,797	2,134,123	
					Other components of equity
Contributed surplus – Expired stock options	903,797	d)	(903,797)	-	
		b)	(2,793,592)		
		c)	3,607		
		b)	637,500		
Deficit	(674,675)	e)	28,315	(2,798,845)	Deficit
	30,069,627		4,996	30,074,623	Total equity
	36,303,576			36,308,572	Total liabilities and equity

Statement of income and comprehensive income for the quarter ended March 31, 2011

Canadian GAAP items	Previous Canadian GAAP	Effect of transition to IFRS	IFRS	IFRS items
	$	$	$	
REVENUE				**OTHER INCOME**
Interest income	45,386	-	45,386	Revenue from cash and cash equivalents
	45,386	-	45,386	
OPERATING AND ADMINISTRATIVE EXPENSES				
Share-based compensation				
				ADMINISTRATIVE EXPENSES
Salaries and fringe benefits	71,400	4,650	76,050	Share-based compensation
Insurance	424,584	-	424,584	Salaries and benefits
Transportation	13,524	-	13,524	Insurance
Office supplies	56,107	-	56,107	Transportation
Training	19,356	-	19,356	Office supplies
Board of directors expenses	3,235	-	3,235	Training
Information for shareholders	32,093	-	32,093	Board of directors expenses
Interest and bank fees	48,590	-	48,590	Information for shareholders
Office rent	23,337	-	23,337	Interest on loan
Promotion and entertainment	28,675	-	28,675	Office rent
Professional fees	21,969	-	21,969	Promotion and entertainment
Capital tax	42,095	-	42,095	Professional fees
Telecommunications	6,795	-	6,795	Telecommunications
Depreciation of property, plant and equipment	15,940	-	15,940	Depreciation of property, plant and equipment
Other expenses	3,702	-	3,702	Other expenses
Allocation to deferred exploration work	(258,533)	-	(258,533)	Allocation to exploration and evaluation assets
	552,869	4,650	557,519	
OTHER ITEMS				**OTHER ITEMS**
Gain on disposal of interest in certain licenses	-	-	-	Gain on disposal of interest in certain licenses
	-	-	-	
EARNINGS BEFORE INCOME TAXES	(507,483)	4,650	(512,133)	**NET INCOME BEFORE INCOME TAXES**
Future income tax	(122,637)	-	(122,637)	Deferred tax expense
NET INCOME AND COMPREHENSIVE INCOME	(384,846)	4,560	(389,496)	**NET INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD**
BASIC EARNINGS PER SHARE				**BASIC EARNINGS PER SHARE**
DILUTED EARNINGS PER SHARE	(0.008)		(0.008)	**DILUTED EARNINGS PER SHARE**
	(0.008)		(0.008)	

Statement of income and comprehensive income for the six months ended March 31, 2011

Canadian GAAP items	Previous Canadian GAAP	Effect of transition to IFRS	IFRS	IFRS items
	$	$	$	
REVENUE				**OTHER INCOME**
Interest income	51,908	-	51,908	Revenue from cash and cash equivalents
	51,908	-	51,908	
OPERATING AND ADMINISTRATIVE EXPENSES				**ADMINISTRATIVE EXPENSES**
Share-based compensation	154,200	(3,607)	150,593	Share-based compensation
Salaries and benefits	820,137	-	820,137	Salaries and benefits
Insurance	26,906	-	26,906	Insurance
Transportation	93,196	-	93,196	Transportation
Office supplies	38,719	-	38,719	Office supplies
Training	5,413	-	5,413	Training
Board of directors expenses	59,194	-	59,194	Board of directors expenses
Information for shareholders	61,158	-	61,158	Information for shareholders
Interest and bank fees	44,743	-	44,743	Interest and bank fees
Office rent	58,642	-	58,642	Office rent
Promotion and entertainment	53,281	-	53,281	Promotion and entertainment
Professional fees	105,807	-	105,807	Professional fees
Telecommunications	16,528	-	16,528	Telecommunications
Depreciation of property, plant and equipment	30,785	-	30,785	Depreciation of property, plant and equipment
Other expenses	11,430	-	11,430	Other expenses
Allocation to deferred exploration work	(525,138)	-	(525,138)	Allocation to exploration and evaluation assets
	1,055,001	(3,607)	1,051,394	
OTHER ITEMS				**OTHER ITEMS**
Gain on disposal of interest in certain licenses	5,386,457	-	5,386,457	Gain on disposal of interest in certain licenses
	5,386,457	-	5,386,457	
EARNINGS BEFORE INCOME TAXES	4,383,364	(3,607)	4,386,971	**NET INCOME BEFORE TAXES**
Future income taxes	(1,290,809)	-	(1,290,809)	Deferred tax expense
NET INCOME AND COMPREHENSIVE INCOME	3,092,555	(3,607)	3,096,162	**NET INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD**
BASIC EARNINGS PER SHARE	0.062		0.062	**BASIC EARNINGS PER SHARE**
DILUTED EARNINGS PER SHARE	0.056		0.056	**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 the heading "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 charge was 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, which vested before the date of transition.

Effect:

There was no effect at October 1, 2010.

On March 31, 2011, an increase of $4,650 in share-based compensation was recorded in income for the period.

d) Presentation differences

Certain presentation differences between Canadian GAAP and IFRS have had 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 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 $ (3 months)	2011 $ (3 months)	2012 $ (6 months)	2011 $ (6 months)
A- ADMINISTRATIVE EXPENSES				
Share-based compensation	36,968	76,050	506,709	116,393
Salaries and benefits	223,550	188,091	409,015	354,070
Insurance	16,497	12,777	28,809	25,412
Office supplies	26,451	8,855	52,084	21,834
Board of directors expenses	55,235	32,093	87,446	59,194
Information for shareholders	52,775	48,590	66,398	61,158
Office rent	32,998	15,544	65,172	32,380
Promotion and entertainment	148,964	21,969	167,212	53,281
Transportation	58,730	41,210	88,094	69,631
Professional fees	244,447	42,095	313,981	105,807
Capital tax	-	-	(12,663)	-
Telecommunications	3,263	4,232	6,503	11,438
Depreciation of property, plant and equipment	29,055	10,033	57,864	20,042
Other expenses	1,253	2,884	2,618	7,104
	930,186	504,423	1,839,242	937,744
B- OPERATING EXPENSES				
Share-based compensation	43,732	-	132,983	34,200
Salaries and benefits	258,280	236,493	516,604	466,067
Insurance	672	747	9,609	1,494
Office supplies	11,611	10,501	19,319	16,885
Transportation	11,380	14,897	17,239	23,565
Training	2,052	3,235	2,747	5,413
Office rent	37,152	13,131	71,550	26,262
Professional fees	3,469	-	3,469	-
Telecommunications	2,020	2,563	4,810	5,090
Depreciation of property, plant and equipment	34,286	5,907	67,833	10,743
Other expenses	2,986	818	3,749	2,411
Allocation to deferred exploration work	(365,530)	(258,533)	(774,200)	(525,138)
Under (over) charge	42,110	29 759	75 712	66 992
C- FINANCE INCOME AND EXPENSES				
Interest income (Note 17)	(39,555)	(45,386)	(98,774)	(51,908)
Bank fees	1,973	1,211	2,932	1,915
Interest on debt	-	22,126	8,315	44,743
	(37,582)	(22,049)	(87,527)	(5,250)