Leader en exploration pétrolière au Québec

INTERIM MANAGEMENT REPORT

For the first quarter ended December 31, 2006

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MANAGEMENT REPORT FOR THE FIRST QUARTER ENDED DECEMBER 31, 2006

This interim management report complies with Rule 51-102A of the Canadian Securities Administration regarding continuous disclosure for reporting issuers. It is an addition and supplement to the first quarterly financial statements and should be read together with them and in parallel with the audited financial statements for the years ended September 30, 2006 and 2005, and the annual management report where necessary. It presents the views of management on current Company activities and financial results, as well as a preview of activities of the coming months.

1.1 Date

The present management report for the three-month period ended December 31, 2006 is dated February 9, 2007.

1.2 Nature of Activities and Overall Performance

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

The Company is currently engaged in studying and assessing the Pétrolia-Haldimand #1 well, since production tests on this well have yielded a stabilized rate of 34 barrels of light crude oil per day. Pétrolia has now passed the first development milestone towards becoming a producer and is presently completing an agreement with the operator to manage the execution of further work. Development work on the Pétrolia-Haldimand well will resume as soon as the agreement is signed.

In December, Pétrolia carried out a regional seismic campaign over 126 line km on the Gaspésia and Edgar properties. The principal objective of this completed regional seismic survey is to assess the lateral extension and depth of the Val-Brillant Formation. In order to develop this property, Pétrolia is following the recommendations of its consultants, Sproule & Associates, who conducted studies during 2003 and 2004. In addition, to confirm the similarity between producing fields in the Appalachian Basin and the formations encountered on the Gaspésia property, Pétrolia has commissioned additional expert advice. This new study will also provide guidelines for the exploration program and will assist in identifying partners. Pétrolia believes that this area is prospective for the discovery of petroleum, and that it meets the exploration criteria for the discovery of large-scale deposits.

Pétrolia has recently taken part in a number of trade fairs such as Québec-Exploration 2006, the Self-Directed Investor Show (Montréal) and Summer NAPE (Houston). These activities enable projects to be promoted, thereby leading to new partnerships. Presentations were made regarding the various Gaspé and Gaspésia projects.

Meanwhile, in spite of some delays, the Company has continued its efforts concerning the European financing announced in October 2006. As planned, the two groups of investors met in Québec in mid-November to carry out a due-diligence audit of Pétrolia. The investigation was mainly designed to confirm to interested investors that the statements made by the Company's representatives during their previous meetings are correct. This audit addressed the technical, legal, administrative, and financial issues. The Company remains confident of obtaining all the financial resources required to support the development of the Haldimand #1 oilfield, and for the successful completion of its other exploration programs.

The Company's current income consists of interest income, since the Company is still at the exploration and production-testing stage at the Pétrolia-Haldimand #1 well. Its financing is therefore provided by issuing shares in its capital stock.

During the quarter, Pétrolia issued 639,603 shares for a total amount of $264,419.

During the first quarter, the Company carried out exploration work totalling $1,099,506. The Company recorded a loss of $102,649 ($0.0036 per share) compared to $53,701 ($0.0030 per share) for the corresponding quarter of the previous year. General and administrative expenses have risen considerably, owing to the Company's growing activities.

1.3 <u>Strategy and Outlook</u>

In 2007, Pétrolia intends to put the Pétrolia-Haldimand #1 well into production and to continue the development of its oilfield. However, before resuming this work the Company must complete a joint operating agreement (JOA) with the operator. In addition, in order to fully assess the potential of the geological structure encountered in this borehole, Pétrolia plans to conduct a 3-D seismic survey campaign and to re-enter the Pétrolia-Haldimand well. The Company then plans to drill a second borehole (a confirmation well), so as to maximize the discovery's production capacity.

Last April, Pétrolia consolidated its position on the Gaspé Peninsula by acquiring three exploration permits. This block of permits, 500 km^2 in area, is known as the Edgar property. Pressing ahead, in August 2006 the Company also acquired three permits in New Brunswick, known as the Dalhousie property. These acquisitions, held 100% by Pétrolia, affirm the Company’s leadership strategy in the field of hydrocarbon exploration and production.

A schedule of all our oil and gas exploration programs is presented on our website, in the Press-Release section.

Gaspé Property

Number of permits (block)	23
Pétrolia's interest	100 %
Back-in granted to Junex	50% of Pétrolia's interest
Surface	4,186 km^2
Access	Paved roads and good forest roads in mountainous region;
Characteristics	Most explored Gaspé region: 7 oil wells drilled since 1999; Sector's oil and gas potential demonstrated; Adequate regional seismic coverage;
Targets	Devonian reefs, limestones, and sandstones; Silurian and Ordovician carbonates between 600 and 3,500 meters;
Projected work	25 km^2 of 3-D seismics; Reprocessing of older seismic data; One confirmation well; Reserve-certification study.

The Gaspé exploration permit block is located in the northeast part of the Gaspé Peninsula, with a total surface area of 4,186 km^2. Pétrolia holds a 100% interest. The Gaspé Basin region is where most of the exploration work in the Gaspé has been conducted. The presence of oil seeps in the Devonian sandstones (60 sites) accounts for the attention given to this region by explorers for more than a century. Despite this interest, most of the work before Pétrolia's arrival involved shallow drilling lacking either a geological description or a geophysical log.

Description of Drilling

Pétrolia-Haldimand #1
Project partners: Junex (45 %) and Gastem (10 %);
Oil and gas shows at various depths;
Borehole drilled to 1,436 meters;
The well produced a stable 40 barrels equivalent per day (BOE) comprising 34 barrels of light crude oil and 6 barrels of gas.

Le Ber
Borehole completed at 830 meters;
Oil shows in drilling muds and rock samples;
Geophysical log completed;
Evaluation in progress; Pétrolia will follow its consultant's recommendations.

Wakeham
Borehole completed at 702 meters (December 2005);
Geophysical log completed;
Evaluation in progress; Pétrolia will follow its consultant's recommendations.

Gaspésia Property

Number of permits (block)	12
Pétrolia’s interest	100 %
Surface	2,390 km^2
Access	Forest roads in mountainous region;
Characteristics	Low level of regional exploration: first work in 2002; Poor regional seismic coverage, but calibrated by a borehole; A few holes drilled in the sector, including one near the western edge of the Pétrolia permit; Sector has oil and gas potential;
Targets	Devonian and Silurian reservoirs to a depth of 3,500 meters;
Work carried out	Seismic interpretation and planning for a regional seismic survey; Regional seismic survey of 126 line km in December 2006.
Projected work	Reprocessing of all the seismic lines in the sector and full interpretation, incorporating geological, geophysical and petrophysical data. An inversion of the potential-field data and a GOCAD 3-D model incorporating all available data will also be produced.

In 2001, the Ministry of Natural Resources carried out a seismic survey that crossed the entire property and Pétrolia contracted a regional thermal-maturation study of the rocks. Consulting firm, Sproule & Associates, then conducted a study incorporating all the available seismic and geological data. This study provided Pétrolia with clear recommendations for the development of the Gaspésia property. The first stage defined by Sproule for the evaluation of the oil and gas potential of the area is the execution of a regional seismic survey. Moreover, many American companies visited Pétrolia's stand during the "Summer NAPE" trade show held in Houston last August: some of these companies noted the similarity between the reservoirs identified on the Gaspésia property and the hydrocarbon-producing fields of the Appalachian Basin, particularly in the Clinton, Medina, and Tuscarora Formations. The interest displayed by these U.S. companies has encouraged the Company to pursue its exploration programs in this region.

1.4 Effectiveness of Information Disclosure Procedures and Controls

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

An assessment of the effectiveness of information disclosure procedures and controls was conducted on September 30, 2006 by the Company's officers, specifically the President and Chief Executive Officer and the Vice President of Finance, and under their supervision. Based on this assessment, these officers concluded that the design and implementation of these information disclosure controls and procedures were effective, and provided reasonable assurance that material information regarding the Company would be made known to them by other members of the Company's staff on a timely basis.

1.5 <u>Operating Results and Cash Position</u>

During the first quarter, the Company's income was confined to income from interest on short-term investments of $22,338, compared to $9,929 for the same period in 2005.

As at December 31, 2006, the Company had cash and cash equivalents of $1,706,265, *i.e.* a decrease of $177,139 for the quarter. Disbursements for deferred exploration expenses of $405,494 and receipts of $264,419 from share issuances explain the variation in cash and cash equivalents.

As of December 31, 2006, working capital was $815,027. Also, as of this date the Company had fulfilled its obligations to holders of its flow-through shares, by carrying out all the exploration work that it had relinquished.

Under the exploration permits granted by the Ministry of Natural Resources and Fauna, the Company has committed to pay fees in the amount of $210,020 by 2010. Minimum payments for the year 2007 will be $5,001, and $68,340 for the three following years. In addition, the Company must annually carry out exploration work on its properties whose minimum costs vary according to the age of the permits; thus they amount to $0.50 per hectare for the first year of the permit, increasing annually by $0.50 to reach $2.50 per hectare from the fifth year onwards.

The minimum amounts payable are $60,000 for the current year, $150,000 in 2008, $790,000 in 2009, $880,545 in 2010, and $125,025 in 2011.

1.6 <u>Analysis of General and Administrative Expenses</u>

General and administrative expenses amount to a total of $124,987. Salaries amounting to $66,837 represent the principal expense during the quarter.

1.7 <u>Summary of Quarterly Results</u>

	2006				2005			
	December $	September $	June $	March $	December $	September $	June $	March $
Revenue	22,338	12,233	11,596	22,595	9,929	103,687	20,519	12,280
Net earnings (Net loss)	(102,649)	(122,458)	(105,935)	(195,831)	(53,701)	56,319	(64,534)	(107,207)
Net earnings (Net loss) per share and diluted per share	(0.0036)	(0.0049)	(0.0047)	(0.0098)	(0.0030)	0.0049	(0.0074)	(0.0124)

Revenues consist of subsidies and interest earned for each of the quarters, except for September 2005 which also includes a profit on the disposal of a right. General and Administrative expenses were relatively stable from one quarter to the next in 2006. The variations in quarterly earnings or losses are explained as follows:

2005 – September: Recorded $99,905 from disposal of well rights and $28,651 for future income taxes;
2006 – March: Recorded stock-based compensation in the amount of $130,065.

1.8 <u>Related-Party Transactions</u>

During the quarter, a company in which one of Pétrolia's directors has a minority interest billed deferred exploration expenses for a total amount of $110,759 (2005 – $0) and a rent of $600. An amount of $ 53,571 is due on December 31, 2006 (2005 – $0).

In addition, the Company shares its administration expenses with Ressources Appalaches, a company having the same chief executive officer.

	2006 $	2005 $
General and administrative expenses		
Salaries and fringe benefits	53,051	32,872
Office supplies	1,980	1,500
Telecommunications	1,195	304

The sum of $22,179 is due to this company on December 31, 2006 (2005 – $40,251).

The Company rented premises from one of its directors for an amount of $4,350 (2005 – $0).
No balance is due on December 31, 2006 (2005 – $0).

These operations occurred in the normal course of business and were transacted in a manner and in amounts that are fair and consistent with standard industry practices between arm's-length parties.

1.9 Risks and Uncertainty

The risks related to the Company's activities are the same as those disclosed in the annual management report. The economic and sector factors remain essentially unchanged. There has been no significant change during the Company's first quarter.

1.10 Additional Information

a) Supplemental information

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

b) Rule 51-102A - Section 5.3

Details of deferred exploration expenses for the three-month period ended December 31, 2006 are presented in the statement of deferred exploration expenses in the Company's interim financial statements of the same date.

c) Rule 51-102A - Section 5.4

Information on shares issued, warrants, and stock options as at February 9, 2007:

Common shares**:** 29,188,252 common shares were issued; of this number, 2,821,028 shares have been escrowed, thereby leaving 26,367,224 shares outstanding.

Warrants: 3,563,869 warrants can be exercised as follows:

- 937,500 shares at a price of $0.50 per share until March 13, 2007;
- 1,615,370 shares at a price of $0.55 per share until September 30, 2007;
- 1,010,999 shares at a price of $0.75 per share until November 30, 2007.

Broker warrants: 306,103 broker warrants can be exercised as follows:

- 87,500 shares at a price of $0.40 per share until March 13, 2007;
- 218,603 shares at a price of $0.38 per share until December 30, 2007.

Stock options: the stock options granted to its directors, members of senior management, employees, and service providers are as follows:

- 270,000 options exercisable at a price of $0.40 per share until March 15, 2010;
- 1,100,000 options exercisable at a price of $0.40 per share until February 3, 2011;
- 150,000 stock options exercisable at a price of $0.58 per share until May 10, 2011.

1.11 <u>Management's Responsibility Regarding Financial Information</u>

The financial statements for the period ended December 31, 2006 are the responsibility of the Company's management and have been approved by the Audit Committee. The financial statements were prepared in accordance with generally accepted Canadian accounting principles. The financial statements include certain amounts that were based on estimates and judgements. Management has determined these amounts in a reasonable manner to ensure that in all material respects these statements are presented fairly.

Rimouski, February 9, 2007

On behalf of the Board

(signed) *André Proulx*

André Proulx
President