PÉTROLIA

Leader en exploration pétrolière au Québec

INTERIM MANAGEMENT DISCUSSION AND ANALYSIS

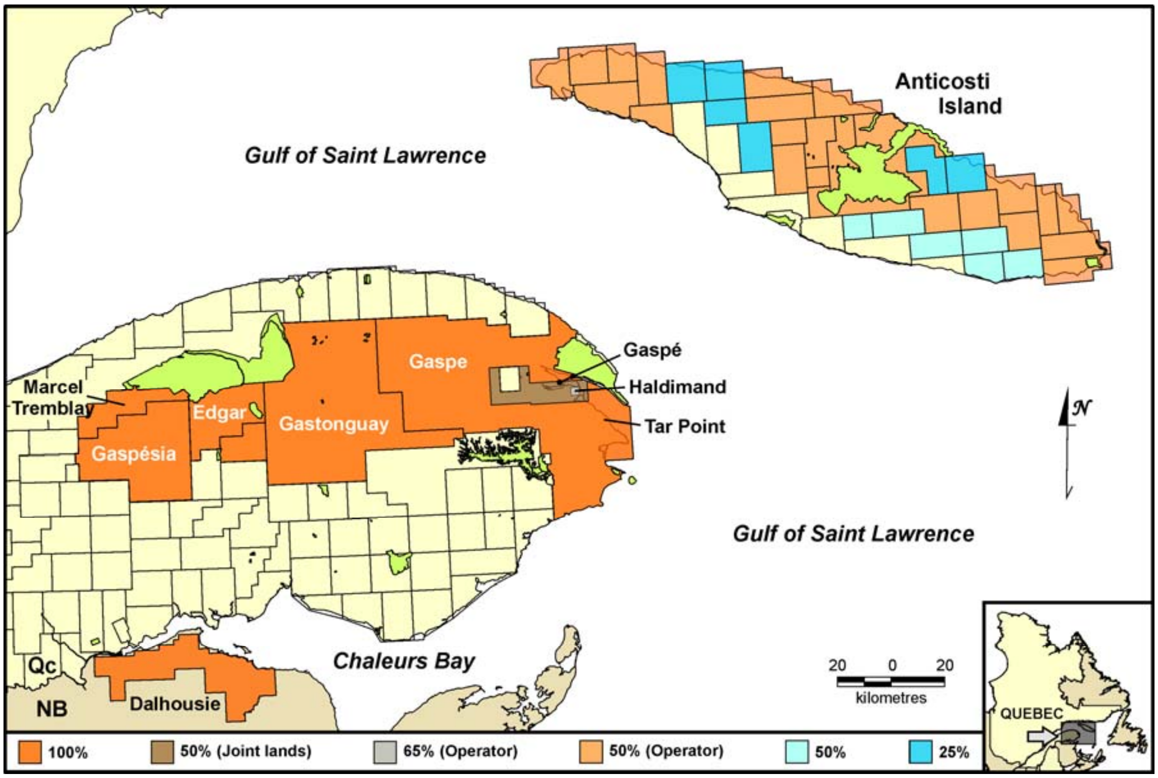
For the first quarter ended December 31, 2009

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

INTERIM MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FIRST QUARTER ENDED DECEMBER 31, 2009

This interim management discussion and analysis is an addition and supplement to the quarterly financial statements and should be read in conjunction with them and in parallel with the audited financial statements for fiscal years ended September 30, 2009 and 2008, and the annual management report when required. It presents the view of Management on current Company activities and financial results, as well as a preview of the activities during the coming months.

PÉTROLIA'S INTERESTS



1.1 DATE

This management discussion and analysis for the three-month period ended December 31, 2009, is prepared as at February 10, 2010.

1.2 NATURE OF ACTIVITIES

The Company is incorporated under Part 1A of the Quebec Companies Act. The Company has been listed on the TSX Venture Stock Exchange since February 16, 2005. The Company's primary activities are the exploration and development of oil and gas properties. In addition, to achieve its objectives, the Company may enter into various partnership agreements characteristic of the oil and gas industry.

1.3 FORWARD-LOOKING STATEMENTS

This report contains statements which should be considered to be forward-looking statements. These statements relate to future events or to Pétrolia's future economic results and involve risks, uncertainties, and other factors, both known and unknown, that could significantly affect the results, performance, and achievements indicated or implied by Pétrolia's statements. Actual events and results could be very different. Accordingly, a decision to invest in Pétrolia's securities should in no circumstance be based on these forward-looking statements. Pétrolia has neither the intention nor the obligation to update these forward-looking statements.

1.4 STRATEGY AND OUTLOOK

The Company's strategy is primarily aimed at the discovery of oil and gas reserves, and to achieve profitable and secure production from them at the earliest possible date. It achieves its objectives by obtaining rights over promising properties, with the support of experienced partners, and by drilling wells based on technical knowledge and the best engineering practices, while balancing risks against returns.

The Company is still in the exploration stage and currently operates no oil wells. However, during this quarter the Company received $12,148 in revenue for its production tests, as well as income from interest and project management. Its financing still comes from the issuance of shares of its capital stock. The "Commitments" heading reports the contractual commitments required to keep its exploration licenses in good standing.

During the first quarter, the Company carried out exploration work for $4,551,415, compared to $2,668,778 for the corresponding quarter of 2008. For the first quarter it incurred a loss of $381,236 ($0.0092 per share) compared to a loss of $649,671 ($0.0159 per share) for the same quarter of 2008.

1.5 <u>EXPLORATION WORK</u>

During this quarter, two exploration wells were drilled:

- Haldimand No. 2, a confirmation well on the Haldimand deposit,
- Tar Point No. 1, an exploration well on the Tar Point structure.

Finally, the exploration licenses were renewed for all properties.

Haldimand Project

During this quarter, Pétrolia became the operator for the work at Haldimand. Junex and Gastem, sold all or a portion of their interests in the project to the Company. On October 22, the drilling of the Pétrolia-Haldimand No. 2 well was completed, reaching a depth of 1,200 m. It confirmed the presence of light crude in the sandstone of the York River Formation, and established with certainty that this sandstone is fractured. The top of the favorable zone (the York River Formation) was encountered at a depth of 630 m, 225 m higher than in the first well. The drilling also showed that the section dominated by petroleum-saturated sandstones is much thicker (474 m) at this location than in the first hole. No formation water was encountered The Haldimand deposit therefore extends at least one kilometer to the northwest of the discovery well.

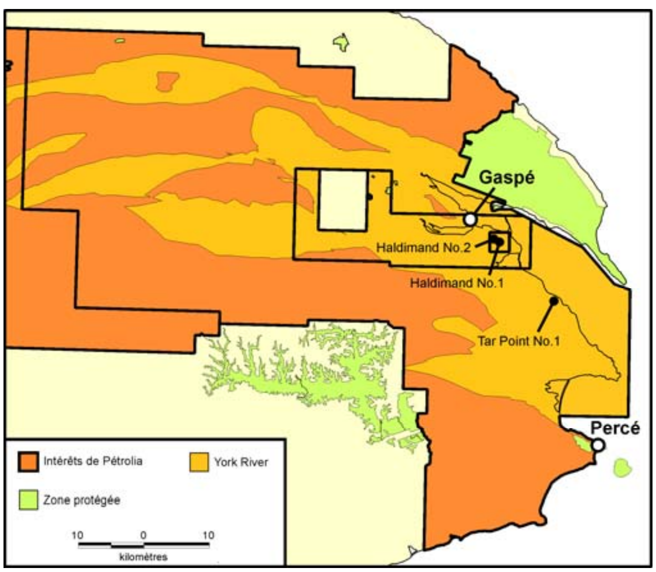
The down hole imaging data conclusively demonstrated the presence of abundant open fractures, concentrated in two intervals that are each about 50 m thick. In the light of information obtained from the Haldimand No. 2 well, and considering the presence of open fractures, we suspect that the production potential at Pétrolia-Haldimand No. 1 has been underestimated, inasmuch as two intervals identified as water-bearing probably carry petroleum, and the lack of water in the reservoir renders it suitable for fracture stimulation.

The data obtained during the drilling of Pétrolia-Haldimand No. 2 suggest that it is an unconventional deposit (see Map 1), consisting of a reservoir with low matrix porosity, cut by a network of open fractures. The use of directional drilling and new methods of hydraulic reservoir stimulation are now making feasible profitable production from this type of deposit. The best example is the Bakken oilfield in southern Saskatchewan and the north-central United States, where production is very large in spite of reservoir characteristics that initially appeared unattractive.

In early 2010 a service rig will be mobilized with the objective of putting the two wells into production. Tests will be performed on the most promising sections and hydraulic fracturing operations will be carried out to increase the production capacity from both wells. Studies are under way to identify the most suitable method of fracturing. Production from the two wells on the Haldimand deposit should begin during the spring of 2010.

The work on these two wells should allow Pétrolia to establish regular production, determine the profitability of the accumulation and, as a result, prepare a development plan for the Haldimand oilfield, to include confirmation wells, production wells, and the required surface facilities. This would enable Pétrolia to take a crucial step in its strategic plan by becoming an oil-producing company.

Haldimand: 900 hectares	
Exploration work as at December 31	• $7,523,904
Partnership	• Pétrolia (65%), Junex (35%) • On July 30, 2009 Pétrolia became the operator of the Haldimand Project
Achivements	• Acquisition of seven seismic profiles in 2005, with a total length of 34 km • Drilling of the Pétrolia-Haldimand No. 1 well in 2005 • 3-D seismic campaign in 2008, covering 13 km² Soil-geochemistry survey in 2008 • Continuing analyses and tests in the Pétrolia-Haldimand No. 1 well • Gravimetric survey to refine the current models in 2009 • Drilling of the Pétrolia-Haldimand No. 2 well in 2009
Proposed work	• Extended production test to confirm the production capacity of the Pétrolia-Haldimand No. 1 well • Start of production



Map 1 York River Formation: A new unconventional play for light oil exploration.

Tar Point Project

Following the discovery at Pétrolia-Haldimand No. 1, the Company launched an exploration program aimed at finding additional deposits of Haldimand type. Using its acquired knowledge, in particular from seismic and geochemical surveys, Pétrolia defined a drilling target at Tar Point, a site over which the Company holds a 100% interest. The Tar Point project is part of Pétrolia's strategy of concentrating its resources on the projects with the highest probability of success, and thereby making the Company profitable in the near term.

The Pétrolia-Tar Point No.1 well was spudded on October 23 and completed on December 7, 2009. It reached a final depth of 2,434 m. After drilling through sandstones displaying characteristics similar to those in the Haldimand reservoir sandstones (York River Formation), followed by a thick limestone unit with open, petroleum-saturated fractures, the well reached other sandstones in which oil and gas shows were observed. A drill stem test in the fractured limestones produced a small quantity of light crude and gas on surface, over a flow period of slightly more than one hour. Preliminary analysis indicates that this zone represents a significant discovery of light crude (48°API), with a production potential of about 20 barrels per day, together with some gas. In January and February, this zone will be the subject of a production test aimed at determining the well's production potential, estimating the size of the discovery, and evaluating the possibility of stimulating the reservoir to improve production.

The results obtained from the Pétrolia-Tar Point No. 1 well confirm the high potential for hydrocarbon developments in the Haldimand Corridor. Pétrolia can now extend its exploration work to cover the whole corridor, with excellent chances for success.

Tar Point	
Exploration work as at December 31	• $3,273,012
Achievements	• Soil-geochemistry survey carried out in 2008 (900 samples) • In 2008, acquisition of five seismic lines with a total length of 57 km, including an offshore portion • High-resolution 550-km^2 airborne magnetic survey in 2008 to extend the government surveys to the East • Gravimetric survey leading to a data inversion to define the top of the basement • Drilling of the Pétrolia-Tar Point No. 1 well
Proposed work	• Production test and assessment

Bourque Project

While the Haldimand Corridor offers Pétrolia an opportunity to produce petroleum in the near future, the Bourque project opens the possibility of discovering a very large deposit. The Bourque project is located in the northwest portion of the Gaspé property, 70 km west of the town of Gaspé, on leases that are 100% owned by Pétrolia. The project is the subject of a $20 M farmout agreement with Pilatus Energy, which allows Pilatus to earn a 70% interest in the project (*Press release of August 5, 2008*). Pilatus has already carried out the first part of the agreement, a 3-D seismic survey, but before August 5, 2011 it must undertake exploration work of about $4.5 M in order to acquire its first 24% share of interest. The project has reached the drilling stage but Pétrolia must obtain approval from Pilatus Energy before mobilizing a drilling rig and advancing further into this phase of the operation.

Interpretation of the 65 km² 3-D seismic survey acquired in 2008 revealed the presence of a major reef complex in the Siluro-Devonian rocks of this portion of the Gaspé region. Pétrolia and Pilatus Energy have agreed on the location of two drilling sites selected to evaluate separate objectives within the reef complex. The total depth of the intended targets is about 3,000 m. This type of trap can hold considerable quantities of hydrocarbons. It is reminiscent of the Leduc-type reefs in Alberta in which giant oilfields have been discovered—a turning point for oil and gas exploration in Alberta.

The Bourque project illustrates another aspect of Pétrolia's strategy, which consists of forming associations with industry partners with the financial resources and technical abilities needed to invest in this type of higher-cost, higher-risk project. The Bourque project is very important to Pétrolia and its shareholders in view of the size of the discoveries that could be made and of the interest that would be generated regarding Pétrolia’s other properties, where similar geologic conditions prevail.

Bourque: 74,267 hectares	
Exploration work as at December 31	• $3,558,275
Partnership	• Pilatus Energy Canada
Achievements	• Acquisition and interpretation of vintage seismic data • Acquisition of 3-D seismic data (65 km²) in 2008 • Study of the maturation of organic matter • Interpretation and evaluation of the results of the 3-D seismic survey • Identification of drill targets
Proposed work	• Planning of a drilling campaign

Dalhousie Project

Results from the seismic programs carried out on the Dalhousie property in 2008 and 2009 were sufficiently encouraging that Pétrolia is now planning to drill there. The surveys have shown that the area includes several large-scale anticlinal structures that could form potential traps. The seismic data also suggests the presence of a gas/liquid interface in one of these structures, at a depth of 1,400 m.

Northern New Brunswick proves to have more gas than oil potential, the region will still be of interest because, owing to its great size, the target structure could, in the event of a discovery, provide a substantial volume of gas. This gas could supply local companies, and possibly a wider market if the necessary infrastructures were established. However, for a number of political and economic factors which render the project less attractive, Pétrolia has temporarily placed the project on hold, because even a significant discovery would not ensure a profitable project under current conditions. Indeed, the lack of gas pipelines in the region, the weak natural-gas price, and the fact that no local industry is currently ready use natural gas make the project less attractive than those in eastern Gaspé. In addition, the uncertainty concerning the future of NB Power's Belledune and Dalhousie thermal power plants, together with its negotiations with Hydro-Québec, only increase the uncertainty regarding the strategy to adopt for the exploration of this region. Before resuming its exploration work Pétrolia must make sure that the economic conditions are more favorable. Meanwhile, the Company continues to seek partners for the pursuit of exploration activities, including drilling.

Dalhousie: 68,163 hectares	
Achievements	• Leases acquired in 2006 and 2008 (235 km^2), 100% owned by Pétrolia • A report published by the Geological Survey of Canada in 2005 acknowledged the region's oil and gas potential • Acquisition of a gravimetric survey in 2008 • Three-dimensional (3-D) modelling of the potential field data shows the extent of the target structure • Acquisition of 2-D reconnaissance seismic profiles in 2008, over a total length of 39 km
Proposed work	

Other Properties

Since Pétrolia's resources have been almost exclusively directed towards drilling work at Pétrolia-Haldimand No. 2 and Pétrolia-Tar Point No. 1, the Company has considerably reduced its activities on other properties. The following is a brief summary of work during the quarter running from October to December 2009.

On Anticosti Island, unfavorable economic conditions convinced the partners to postpone the drilling program scheduled for 2009 until a later date. However, interpretation of seismic surveys and the 2008 geochemical survey continued in 2009, and this work confirmed the Island's very high potential for hydrocarbons. A number of targets were identified and Pétrolia is ready to begin drilling as soon as the conditions are favorable.

Regarding the Gaspésia, Edgar, Marcel-Tremblay, and Gastonguay properties, thermal-maturation studies have shown that a broad area of these properties is favorable for the preservation of natural gas, and that a small portion is favorable for the preservation of petroleum. In 2008, Pétrolia devoted much effort to the interpretation of the seismic data acquired over these properties. In addition, a regional geochemical survey was carried out in 2008 to examine the structures most likely to contain hydrocarbons. Integration of the seismic and geochemical results has identified drilling targets, but additional seismic surveys will be required to locate them more precisely. For the time being Pétrolia is more focused on its petroleum potential. However, it is always on the lookout for partners for a gas-exploration venture in the Gaspé region.

1.6 RESULTS AND CASH POSITION

During the first quarter, the Company’s revenues were composed of interest income of $4,843 from short-term investments, compared to $63,778 for the same quarter in 2008, and project management income of $1,781. Income in 2008 including interest from short-term investments and interest from accounts receivable from a partner as a result of an agreement signed during this quarter. Pétrolia received $12,148 during the quarter for the sale of oil produced during production tests.

As at December 31, 2009, the Company had cash and cash equivalents of $7,726,354, an increase of $2,893,270 since September 30, 2009. This change is primarily explained by the issuance of 7,985,568 common shares in exchange for a net consideration of $6,752,941 in cash, and $4,148,388 in exploration work.

As at December 31, 2009, working capital was positive at $8,574,241 which will allow the Company to continue its exploration projects.

1.7 COMMITMENTS

Pétrolia has made a commitment to its investors to carry out $3,452,533 in exploration work before January 1, 2011.

Under the terms of exploration leases granted by Quebec's Ministry of Natural Resources and Wildlife and New Brunswick's Ministry of Natural Resources, the balance of the fees that the Company has agreed to pay to them is $862,443 by 2014. In addition, the Company must perform work on its properties in Quebec on a yearly basis, with minimum costs varying according to the age of the leases; therefore, they correspond to $0.50 per hectare for the first year of the lease and increase annually by $0.50, ultimately reaching $2.50 per hectare beginning with the fifth year. The minimum amount of work required by Quebec and New Brunswick, net of exploration work already performed, is $0 in 2010, $1,233,749 in 2011, $2,127,465 in 2012 and $2,056,247 in 2013.

1.8 ANALYSIS OF GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the quarter total $303,408, compared to $222,491 in 2008. The difference of $80,917 between the first quarter of 2009 and that of 2008 is primarily due to board of directors compensation and professional services related to the hiring of personnel.

1.9 SUMMARY OF QUARTERLY RESULTS

	2009				2008			
	December	**September**	**June**	**March**	**December**	**September**	**June**	**March**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Revenue	6,224	46,759	66,186	27,921	63,778	129,439	44,908	337,479
Net earnings (net loss)	(391,266)	386,447	(135,103)	(456,584)	(649,671)	(2,193,065)	1,487,502	(107,581)
Net earnings (net loss) per share								
Basic	(0.0094)	0.0095	(0.0033)	(0.0112)	(0.0159)	(0.0623)	0.0448	(0.0035)
Diluted	(0.0094)	0.0073	(0.0033)	(0.0112)	(0.0159)	(0.0623)	0.0399	(0.0035)

The revenue consists mainly of interest earned for each of the quarters. General and administrative expenses are relatively stable from one quarter to another. The main changes in quarterly losses or profits are explained as follows:

2008 – June	Unrealized gain of $1,590,000 on a long-term investment recorded.
2008 – September	Stock-based compensation of $461,325 and an unrealized loss of $1,380,000 on an investment recorded.
2009 – March	Capital tax of $164,124 for fiscal years 2006, 2007, and 2008, which the Company disputed through a notice of objection to Revenu Québec, and an unrealized loss of $180,000 on an investment recorded.
2009 – September	Unrealized gain of $200,000 on the investment and future income taxes of $542,000 recorded.

1.10 RELATED-PARTY TRANSACTIONS

During the quarter, a company (Gestion LesTrois Inc.) in which one of Pétrolia's directors holds a minority interest billed the Company for rent for a location in the amount of $2,142 (2008 – $1,428).

During the quarter, another company (Géominex Inc.) in which one of Pétrolia's directors holds a minority interest billed the Company for exploration expenses in the amount of $41,332 (2008 – $30,438). As at December 31, 2009, $23,624 is receivable from these companies (2008 – balance due $108,765).

The Company shares certain administrative expenses with Ressources Appalaches Inc., a company that has the same chief executive officer. It billed the Company for the following expenses for the first quarter:

	2009 **$**	**2008** **$**
Salaries and fringe benefits	28,544	86,899
Office supplies	900	900
Telecommunications	1,504	667

The sum of $17,190 is due to this company as at December 31, 2009 (2008 – $31,884).

Transactions were carried out with a company (Seisserv Inc.) whose majority shareholder is a Pétrolia director. The exploration expenses billed to the Company for the quarter are $4,313 (2008 – $30,438). As at December 31, 2009, $2,249 is due (2008 – $0).

These operations occurred in the normal course of business and at the fair exchange value, which is the amount of the established consideration accepted by the related parties.

1.11 ACCOUNTING POLICIES

Readers are asked to refer to Note 3 in the annual financial statements of September 30, 2009, for a detailed description of the changes to accounting policies.

1.12 NEW ACCOUNTING STANDARDS

The Company has not adopted any new standards during the first quarter.

1.13 FUTURE ACCOUNTING STANDARD

International Financial Reporting Standards

The CICA Accounting Standards Board (AcSB) has adopted a strategic plan to converge with the International Financial Reporting Standards (IFRS) for companies having public accountability obligations. As the AcSB confirmed on February 13, 2008, the conversion requires companies that have public accountability obligations to adopt the IFRS fully in 2011. The transition to the IFRS will apply to interim and annual financial statements for fiscal years opened on or after January 1, 2011. The Company will switch to the new standards according to the schedules established by these new rules and will closely monitor all changes resulting from this convergence.

Its conversion project will be carried out in four stages: initial assessment, detailed assessment, design, and implementation. During fiscal year 2008, the Company began the first stage, the initial assessment, which involves analyzing the main differences existing between GAAP and IFRS, as well as an examination of the possible options with regard to adoption.

The Company has begun the execution of the detailed evaluation and design stages. Starting in fiscal year 2009, more specifically in the detailed assessment stage, the Company began assessing the impacts of the IFRS on accounting and financial reporting on systems and processes, business, employees, and others. This stage will determine the consequences of the change. Then, during the design stage, the Company will start the review of the accounting processes and systems that will be affected by the differences identified through analyses performed during the previous stages.

Finally, the implementation, planned for fiscal year 2011, will involve establishing the changes in policies, procedures, and practices as well as in IT systems.

1.14 FINANCIAL INSTRUMENTS

Credit Risk

Financial instruments that potentially subject the Company to credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company's cash and cash equivalents are held with or issued by first-class financial institutions. Receivables mostly represent sums due from the federal and provincial government and from partners. Therefore, Management considers the risk of non-performance on these instruments to be very minimal.

Liquidity Risk

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

The oil and gas properties held by the Company are in the exploration stage. The Company's long-term profitability is partially linked to the costs and the success of the exploration and subsequent development programs, which may also be influenced by various factors.

Among these, factors to be considered include environmental regulations, features of possible oil and gas accumulations, i.e., the quality and quantity of the resources, as well as development costs for a production infrastructure, financing costs, price of oil, and the competitive nature of the industry.

Significant investments are necessary to complete the exploration and reserve development programs. In the absence of cash flows generated by oil and gas operations, the Company depends on capital markets to finance its exploration and development activities. Market conditions and other unforeseeable events could have an impact on the Company's ability to raise the funds required for its development.

Market Risk

Market risk is the risk that the fair value of the investment held for trading would fluctuate due to market price variations.

1.15 ADDITIONAL INFORMATION

a) Supplemental documents

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

b) Rule 51-102 Section 5.3

The deferred exploration expenses for the three-month period ended December 31, 2009, are detailed as follows:

	Geology $	Geophysical surveys $	Drilling $	Supervision $	Total $
Anticosti	11,396	-	-	-	11,396
Gastonguay	2,880	-	-	-	2, 880
Gaspésia-Edgar-Marcel Tremblay	4,160	1,205		-	5,365
Gaspé	3,252	1,206	87	8,690	13,235
Gaspé Bourque project	52	67,856	126,136	-	194,044
Gaspé Haldimand project	10,689	22,899	1,176,712	-	1,210,300
Gaspé Tar Point project	56,453	989	3,038,430	-	3,095,872
Dalhousie (New Brunswick)	15,731	2,332	260	-	18,323
	104,613	96,487	4,341,625	8,690	4,555,415

c) Rule 51-102 Section 5.4

Information on shares issued, warrants, and stock options as at February 10, 2010:

Common shares: 48,912,287 common shares have been issued and are outstanding.

Warrants: Warrants can be exercised as follows:

- 3,333,332 shares at a price of $1.50 per share until December 6, 2010
- 2,163,161 shares at a price of $1.30 per share until December 4, 2011
- 1,750,000 shares at a minimum price of $1.00 per share until October 10, 2012
- 3,000,000 shares at a minimum price of $1.00 per share until January 10, 2013

Stock options outstanding: 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
- 687,500 options exercisable at a price of $0.40 per share until March 20, 2010
- 200,000 options exercisable at a price of $0.60 per share until March 20, 2010
- 150,000 options exercisable at a price of $1.25 per share until March 20, 2010
- 725,000 options exercisable at a price of $0.40 per share until February 3, 2011
- 150,000 options exercisable at a price of $0.58 per share until May 10, 2011
- 50,000 options exercisable at a price of $0.74 per share until May 21, 2012
- 662,500 options exercisable at a price of $0.40 per share until June 21, 2012
- 400,000 options exercisable at a price of $0.60 per share until February 12, 2013
- 150,000 options exercisable at a price of $0.60 per share until March 3, 2013
- 427,500 options exercisable at a price of $1.25 per share until July 7, 2013
- 180,000 options exercisable at a price of $0.74 per share until May 21, 2014

1.16 MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Pétrolia's quarterly financial statements were prepared by Management in accordance with Canadian generally accepted accounting principles. These financial statements were audited by the Company's auditors. The financial statements include certain amounts that are based on the use of estimates and judgments. Management has reasonably determined these amounts to ensure that the financial statements are presented faithfully in all material respects.

Rimouski, February 10, 2010

On behalf of the Board

(signed) *André Proulx*

André Proulx
President