PÉTROLIA

Leader en exploration pétrolière au Québec

INTERIM MANAGEMENT
DISCUSSION AND ANALYSIS
For the first quarter ended
December 31, 2010

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INTERIM MANAGEMENT DISCUSSION AND ANALYSIS FOR THE FIRST QUARTER ENDED DECEMBER 31, 2010

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 the audited financial statements for the fiscal years ended September 30, 2010 and 2009, and the annual management report when required.

This report presents the view of management on current Company activities and financial results as at December 31, 2010. It may also cite significant events that occurred after December 31, 2010 and provides a preview of activities during the coming months.

HIGHLIGHTS FOR THE QUARTER

- Signing of a final agreement with Québénergie as regards development of the Haldimand oil field and the surrounding area.

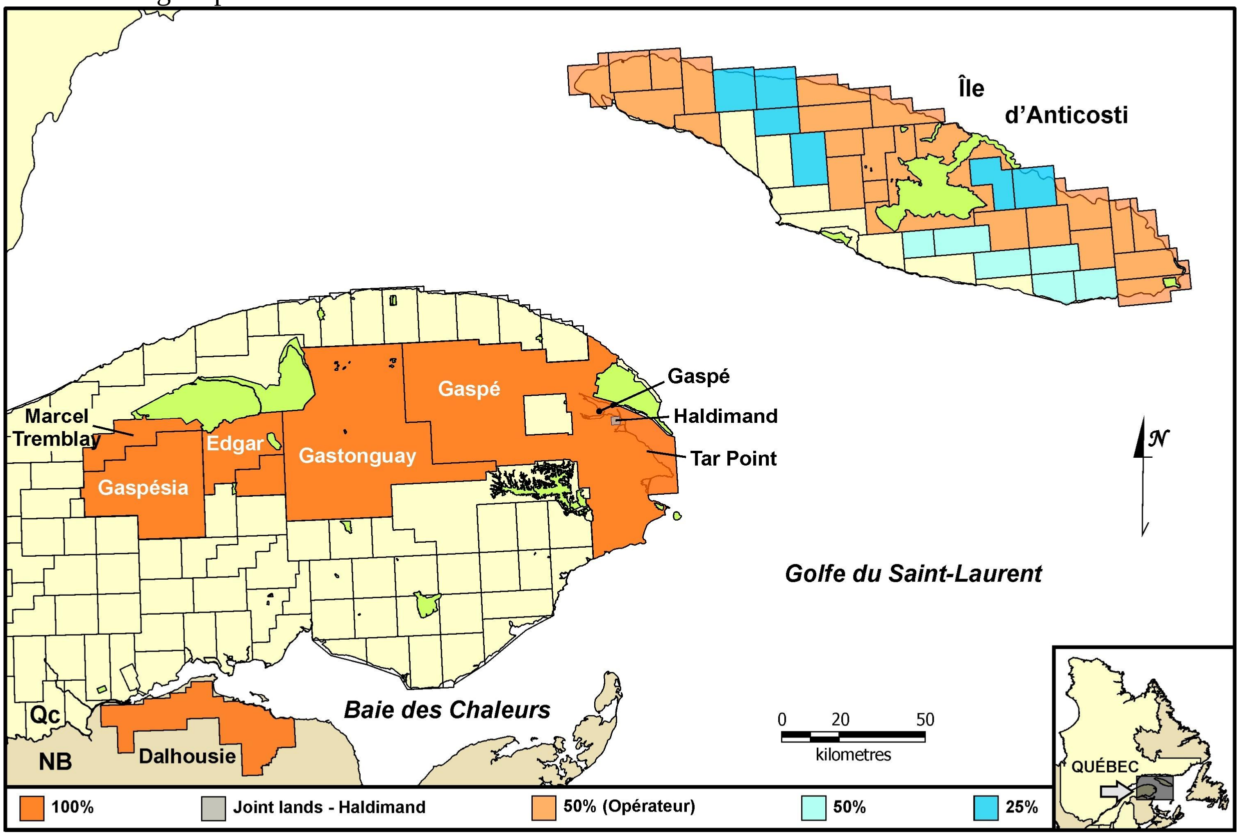
- Evaluation of the drilling campaign on Anticosti Island.

PÉTROLIA's INTERESTS

1.1 DATE

This management report for the three-month period ended December 31, 2010 is dated February 11, 2011.

The following map illustrates the extent of the area over which Pétrolia holds interests.



1.2 NATURE OF ACTIVITIES

The Company is incorporated under Part 1A of the Quebec *Companies Act*. It has been listed on the TSX Venture Exchange since February 16, 2005 (under the symbol PEA). The Companyôs primary activities are the exploration and development of its oil and gas properties. To achieve its objectives, the Company has entered into various partnership agreements characteristic of the oil and gas industry.

1.3 FORWARD-LOOKING STATEMENTS

Some of the declarations made in this report may constitute forward-looking statements. These statements concern future events or Pétrolia's future economic results, and comprise risks, uncertainty and other known and unknown factors with a potentially significant impact on results, profits or achievements, compared to the contents of Pétrolia's declarations. Actual events or results may therefore prove to be quite different. Accordingly, a decision to invest in Pétrolia shares should at no time be based on these forward-looking statements. Pétrolia disclaims all intentions or responsibilities with regard to updating these forward-looking statements.

1.4 STRATEGY AND OUTLOOK

The Company's objective involves discovering marketable oil resources and putting them into production as quickly as possible, with the goal of rapidly becoming profitable. While striving to achieve this objective, the Company also ensures that its activities bear in mind personal safety as well as environmental and social considerations. Pétrolia achieves this objective by holding rights over promising licenses and signing agreements with partners having the necessary technical expertise. The Company installs wells according to scientific and technical principles, and relies on the best trade practices for its drilling activities. Particular attention is also paid to relations with the local socioeconomic environment.

1.4.1 *Haldimand*

The discovery of the unconventional Haldimand oil deposit was a result of the Companyõs efforts in this vein. Putting this deposit into production holds numerous technical challenges that the Company and its partners are currently working to resolve. When it enters into production, Haldimand will become the leading commercial oil operation in Quebec.

Haldimand's development requires that Pétrolia and its partner undertake a number of actions seeking to:

- determine the field's size and have the evaluation of the resource validated by an independent expert;
- identify the most appropriate extraction process, based on the deposit's geology;
- introduce the conditions necessary to obtain community approval for the project.

Québénergie, the partner selected by Pétrolia for the development of the Haldimand deposit, complies with the conditions introduced by the Company, and notably:

- possesses the technical expertise and the financial capacity required for the development of the project;
- shares Pétroliaõs concerns with regard to the environment and the community;
- enables Pétrolia to pursue its development and maintain its leadership in the exploration of its licenses;
- agrees to equally share the production of the resources discovered with Pétrolia.

During this quarter, Pétrolia and Québénergie established an action plan for quickly putting Haldimand into production.

1.4.2. ***Anticosti***

Anticosti Island remains a priority because of its recognized potential. The extraction of a core sample in the summer of 2010, during the drilling of the Pétrolia Corridor Chaloupe No. 1 well, opened the door to new research in the territory. While the search for traditional reserves remains an interesting alternative in spite of the lack of discoveries to date, the initial results from the sample extracted from the Macasty shales heralds a riveting future.

Geologists have long known about the presence of oil shales on Anticosti Island. This opportunity, however, only received global attention in the last while. Last summer, this led Pétrolia and Corridor Resources to verify the oil potential of the Macasty shales by extracting three contiguous core samples in the Chaloupe well. The results were highly awaited, as the area in question extends over a significant part of Anticosti Island. Preliminary results of the core sample analyses confirmed the oil potential of this shale and, in so doing, led to a new objective as regards oil.

1.4.3 ***Revenues***

While Pétrolia is at the exploration stage for most of its properties, it is producing the Haldimand deposit on an experimental basis. Revenues during this quarter thus consist of interest on deposited amounts. The Company has also received an amount of $44,221 for the evaluation of oil reserves. Its financing is still ensured through the issuance of shares of its capital, tax credits arising from current tax rules in Quebec, and agreements entered into with its partners.

During the quarter, the Company did exploration work for an amount of $739,923, compared with $4,551,415 for the corresponding quarter of 2009. For the first quarter it incurred a net profit of $0.0695 per share, compared to a net loss of $0.0094 per share for the same quarter in 2009.

The commitments intended to maintain its exploration licenses in effect are disclosed under ñCommitments.ò

1.5 EXPLORATION WORK

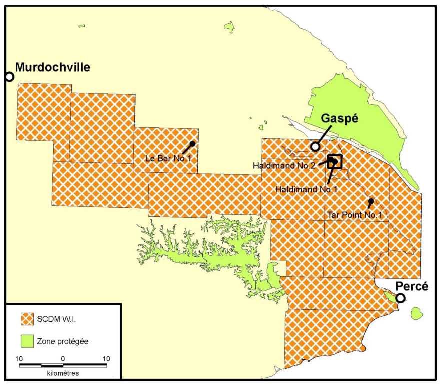
1.5.1 ***Haldimand Project***

From the outset, Pétrolia dedicated a large part of its activities to exploring the York River Formation in the Gaspé region, banking on the fact that it would discover commercially producible oil reserves. Its expectations were met with the discovery of the Haldimand deposit. The work carried out thus far has shown that the deposit is unconventional in type, and that it has some characteristics similar to the Bakken deposits in the north-central United States. Although this type of deposit is popular in North America, extracting its oil requires specific production techniques. In addition to evaluating the known sector of the field, work will be done to determine whether the deposit extends beyond the area currently of interest to the parties involved.

1.5.1.1 ***New Partnership***

The Company completed a decisive step toward putting the deposit into production with its December 20, 2010 announcement that it had signed a final agreement with Québénergie (Investcan Energy) (see press release). Upon the agreement's signature, the partners concurred on an action plan whereby they will be able to submit a request for an operating lease as early as 2011. The final agreement stipulates that, in exchange for $15.2M ($6.7M of it in cash and $8.5M in future work), Québénergie will acquire 50% of Pétroliaôs interests in the Haldimand discovery, as well as in 13 related licenses. This agreement confirms Pétroliaôs role as the operator in the exploration work. Québénergie, with its acknowledged production expertise and experience, will become the operator when the deposit moves to the development phase.

Territory covered by the agreement entered into with Québénergie



1.5.1.2 *Estimate of the Haldimand Deposit Resources*

To reiterate the importance of the Haldimand discovery, we are including below a table prepared by Sproule and which illustrates the amount of oil in the territory as well as the recoverable resources.

Estimates of the bulk volume of petroleum initially in place(1)
and contingent (potentially recoverable) resources(2), excluding risks,
as calculated by Pétrolia on the basis of data available as at December 31, 2009
and audited by Sproule Associates Limited(3)
(in barrels)

	Low Estimate(4)	**Best Estimate(5)**	High Estimate(6)
Oil initially in place	21,900,000	**69,700,000**	198,100,000
Contingent resources (recoverable)	1,900,000	**7,700,000**	28,400,000

(1) Estimated bulk volume in-place within a fault block included in the Haldimand property (9 km^2), unadjusted for working interests or encumbrances.
(2) The contingent resources are determined on the basis of the seismic data, the wireline well logs, and tests performed on the wells and available December 31, 2009. They are defined as recoverable from resources initially in place by using existing technologies or in development, but that are not, at present, considered commercially producible. These estimates have not been weighted with the probability of being put into production. The estimate must not be interpreted as a probability of being put into production, and if it is, there is no certainty for the moment as to when the production will be commercially viable.
(3) The audit is signed by Douglas J. Carsted, C.D., P. Geol., Vice-President, Geoscience of Sproule Associates Limited.
(4) The probability that the quantity currently in place is equal to or greater than the estimate is 90%.
(5) The probability that the quantity currently in place is equal to or greater than the estimate is 50%.
(6) The probability that the quantity currently in place is equal to or greater than the estimate is 10%.

1.5.1.3 ***Production Test***

Pétrolia moved forward with the production test on the Haldimand No. 1 well begun on June 30, 2010. This test allows for collecting additional information on the deposit and better identifying its characteristics. This information could prove significant to the development of this type of reserve in the York River Formation, which extends well beyond the area covered by the Haldimand project.

1.5.1.4 ***Additional Surveys***

In order to obtain more specific data on the deposit's geometry and its potential extension, the partners agreed to carry out a magnetotelluric survey of the entire Haldimand deposit. A geochemical survey was also planned. The firms to which these works will be entrusted were selected during this quarter, and the acquisition and processing parameters were established. The necessary field work and data processing will be carried out during the second quarter. The techniques used for these surveys are "passive", meaning that they will not have any observable effect on the environment.

The magnetotelluric survey comes on the heels of a survey conducted in the summer of 2010, the results of which were finalized during this quarter and notably illustrate that this method allows for drawing a distinction between zones likely to favour oil accumulation and those where this is less probable. These results made it possible to better understand the geometry of fluids in the deposit. With this method, which involves measuring the earth's natural magnetic field, large areas can be tested at a reasonable cost. The results, once interpreted, will also allow for determining the best site for the seismic survey that the partners are planning to conduct in order to more accurately define the extension of the Haldimand oil field beyond the known zone.

The geochemical survey, in turn, consists of measuring the natural levels of hydrocarbon micro-seepage. The fluids in question are captured in modules for this purpose, after which they are subjected to thermal desorption, mass spectography and gas chromatography tests. Not only can the chemical elements identified reveal the presence of oil networks, but the survey results are compared to those of surveys previously carried out by the Company. As part of this geochemical survey, rock samples were gathered during field outings, and will be analyzed to determine the characteristics of their organic matter (quantity, age, etc.). This survey, while covering a territory beyond the Haldimand deposit, generates information that is helpful in better understanding the oil field itself.

Lastly, the quarter saw the implementation of a program for the purchase and recovery of the seismic lines acquired by Petro-Canada in the 1980s. The results of this initiative will be unveiled over the course of the next quarter. The reprocessing of the data from these old lines should enable increasing their quality significantly. As regards the gravity reversal survey mentioned in the previous report, it will be continued, with the aim of determining the depth of the oldest layers, which are not always included in seismic data.

SUMMARY: HALDIMAND

Surface area	900 hectares
Exploration costs as at December 31, 2010	$9,710,930
Partnership	• Pétrolia and Québénergie (64%), Junex 36% ï over 9 km^2 • Pétrolia (50%) and Québénergie (50%) outside of the 9 km^2 perimeter • Pétrolia became the operator for the Haldimand Project on July 30, 2009 • Pétrolia acquired 100% interest on an area of 150 km^2 surrounding the Haldimand structure • Signing of the final agreement with Québénergie on December 20, 2010
Achievements	• Acquisition of seven seismic surveys in 2005, with a total length of 34 km • Drilling of Pétrolia-Haldimand No. 1 in 2005 • 3-D seismic campaign in 2008, covering 13 km^2 • Soil-geochemistry survey in 2008 • Gravimetric survey in 2009 to refine the current models • Drilling of Pétrolia-Haldimand No. 2 in 2009 • Additional completion work and production test at the Pétrolia-Haldimand No. 1 well (February 2010) • Completion work and production test at the Haldimand No. 2 well (March 2010)
Work in progress	• Production test on Haldimand No. 1 • Geochemical survey • Magnetotelluric survey • Petrophysical studies • Organic matter evaluation • Processing of gravity field data • Recovery of seismic lines
Proposed work	• Seismic survey, drilling and stimulation permitting optimization of well productivity

1.5.2 *Anticosti Island*

Anticosti Island meets the four criteria sought in a petroleum system, namely a highly-productive source rock favourable for the production of petroleum, a good quality reservoir, impermeable cap rock, and the presence of numerous large-scale traps.

1.5.2.1 *Traditional Targets*

The work carried out by Pétrolia and its partner in this area has identified a number of targets for drilling. To date, the primary objective consisted in exploring the oil potential of the carbonates of the Trenton and Black River groups in the central and eastern sectors of the island. This exploration model was very successful in the Appalachian Basin (Ontario and New York State). While the drilling did not meet expectations in terms of discoveries, it nonetheless made it possible to confirm the potential of the Trenton ï Black River model. A porous zone was actually penetrated in the Black River (Pétrolia Corridor Saumon No. 1. well), which produced the equivalent of 5,000 barrels of salt water over an open thickness of 3 cm. This flow attests to the quality of this reservoir.

1.5.2.2 *Unconventional Targets*

Partner exchanges led to the decision to test the potential of the Macasty Formation with regard to shale oil. The core sample extracted from the shale at the Macasty Formation (Pétrolia Corridor Chaloupe No. 1 well) culminated in the development of a new model given the importance of the first results obtained (see press release published on February 9, 2011). With the analyses performed by a laboratory in Weatherford, Houston and those carried out by Schlumberger Canada, providing positive feedback on the Macasty shalesô ability to produce oil, this new model became necessary.

The exploration program on Anticosti Island is still in its early stages. Before the development phase can be envisioned, further work will be required to determine the potential for commercial recovery of shale resources.

Pétrolia and its partner Corridor Resources are already examining the options available to them, including a partnership, for best executing the upcoming phases in the exploration and evaluation of the resources.

SUMMARY: ANTICOSTI

Surface area	638,106 hectares
Exploration costs as at December 31, 2010	Å$5,503,018
Partnership	ÅLicense acquired in 2007 - Pétrolia interest: from 25% to 50% ÅCorridor Resources Inc.
Achievements	ÅInterpretation of seismic lines and available drilling data ÅGeochemical ground survey (gas absorbed through microbial analysis) conducted on the entire island in 2008 (1,700 samples) ÅInterpretation of Shell and Hydro-Québec seismic data ÅIntegration of drilling data into modern composite logs ÅEvaluation of the Shell Jupiter No. 1 and Shell Roliff No. 1 wells ÅStudy on the characteristics of organic matter in selected wells on the island ÅDrilling campaign in 2010 (3 wells drilled), including three contiguous core samples extracted in the Macasty Formation ÅEnvironmental characterization of drilling sites
Work in progress	Å Evaluation of drilling works carried out in the summer of 2010 ÅStudy of the analysis results of the core samples extracted from the Macasty Formation
Proposed work	ÅContinue with the Macasty evaluation ÅActive search for partners

1.5.3 Bourque Project (West Point Reefs Formation)

A 3-D seismic survey carried out by Pétrolia in 2008 clearly demonstrated the presence of a reef complex in the West Point Formation, an older formation than York River. This type of trap can store considerable quantities of hydrocarbons. The traps identified are the same type as the Leduc-type reefs in Alberta, in which giant oilfields have been discoveredð which marked a decisive turning point for oil and gas exploration in that province.

The Bourque project provides an opportunity to discover a significant deposit. This project is located 70 km west of the city of Gaspé. The total depth of the targets varies between 2,300 and 3,000 m.

The Bourque project is very important to Pétrolia and its shareholders in view of the size of the discoveries that could be made and the interest that would be aroused regarding Pétrolia's other properties in the Gaspé region, where similar geologic conditions prevail.

Over the last quarter, Pétrolia has continued seeking one or more partners for the exploratory drilling phase of the projectôs main structure. The uncertainty that is currently prevalent in Quebec, particularly as regards oil and gas exploration, and more specifically shale gas, has prevented Pétrolia from finalizing various discussions that were underway. The Company's senior management nonetheless continues to consider such a partnership agreement as the favoured precursor to the onset of drilling works on this structure.

SUMMARY: BOURQUE

Surface area	Å74,267 hectares
Exploration costs as at December 31, 2010	Å$3,588,283
Partnership	Å95% Pétrolia, 5% Pilatus Energy Canada ÅSearching for a partner
Achievements	• Purchase and interpretation of old seismic data • Acquisition of 3-D seismic data (65 km²) in 2008 • Maturation study on organic matter • Interpretation and evaluation of the results of the 3-D seismic survey • Identification of two targets for drilling • Preparation of a drilling site
Work in progress	• None
Proposed work	• Drilling campaign

1.5.4 *Other Properties*

As it did in 2010, Pétrolia spent the quarter ended December 31, 2010 focused on the Haldimand and Anticosti projects. By assigning its resources to these initiatives, Pétrolia found itself relatively uninvolved in its other properties.

This being said, Pétrolia did spend funds on organic matter analyses of field samples from all of its properties. These analyses aimed to enhance our knowledge on the maturity and source rock potential of rocks in the Gaspésie region. Weatherford was mandated to carry out this work.

Amounts were also allocated to a geochemical project carried out by the same firm and using the same approach as the Haldimand survey. This project, introduced during the quarter and slated to continue into the next quarter, has a budget of $175,000 and covers portions of the Gaspésia, Edgar and Tremblay properties.

No other activities were carried out on these properties.

1.6 OPERATING RESULTS AND CASH POSITION

For the first quarter, the Company received an amount of $44,221 for the evaluation of oil reserves, compared with $10,033 for the same quarter in 2009. Interest revenue on short-term investments accounted for $6,522, compared with $4,843 for the same period in 2009. There was no stewardship revenue, compared to 2009, where this item was at $1,781.

As at December 31, 2010, the Company had cash and cash equivalents of $7,752,115, an increase of $5,803,060 since September 30, 2010. The cash receipt generated by the sale of interests to Québénergie Inc. explains this increase.

As at December 31, 2010, working capital was positive at $7,849,734, which will allow the Company to continue its exploration projects.

1.7 COMMITMENTS

Under the terms of exploration licenses granted by Quebecôs Ministry of Natural Resources and Wildlife and New Brunswickôs Ministry of Natural Resources, the Company has committed to pay them a rent amount of $622,266 by 2013. The following minimum payments will be due over the course the next few fiscal years:

2011	2012	2013
$209,776	$206,245	$206,245

In addition, the Company must perform work on its properties on a yearly basis, with minimum costs varying according to the age of the licenses; therefore, they correspond to $0.50 per hectare for the first year of the license and increase by $0.50 annually, ultimately reaching $2.50 per hectare as of year five. The minimum amount of work required is $135,398 in 2011, $968,687 in 2012, $665,747 in 2013, and $840,943 in 2014.

The Company has signed leases until 2012 for the rental of office space and one house from four different corporations. The balance of the commitments associated with these leases, excluding escalation clauses, is $84,686, $11,900 of which is payable to a company in which a director holds a minority share.
The following minimum payments will be due over the course the next few fiscal years:

2011	**2012**
$81,186	$3,500

1.8 ANALYSIS OF OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses for the quarter totalled $502,132, compared with $303,408 in 2009. The gap of $198,724 between the same quarter in 2010 and 2009 is mainly caused by the following variances:

- Stock-based compensation: an amount of $48,600 was accounted for.
- Professional fees: non-recurring legal and translation expenses totalling $15,336.
- Salaries and fringe benefits: payroll for the quarter grew by $44,004 as the result of an increase in the Company's exploration activities. Administrative employees were hired.
- Interest on the debt: An interest amount of $22,617 was accounted for with regard to the debt incurred through the funding of tax credit on resources.

1.9 SUMMARY OF QUARTERLY RESULTS

	2010				**2009**			
	December $	**September $**	**June $**	**March $**	**December $**	**September $**	**June $**	**March $**
Revenue	6,522	(46,658)	47,342	6,646	18,772	46,759	66,186	27,921
Net earnings (net loss)	3,477,401	(330,057)	(244,544)	(402,692)	(381,236)	386,447	(135,103)	(456,584)
Net earnings (net loss) per share								
Basic	0.0695	(0.0068)	(0.0053)	(0.0092)	(0.0092)	0.0095	(0.0033)	(0.0112)
Diluted	0.0571	(0.0068)	(0.0053)	(0.0092)	(0.0094)	0.0073	(0.0033)	(0.0112)

Revenue consists mostly of interest earned for each of the quarters. The negative revenue for September 2010 is mainly due to the reclassification of income from the evaluation of oil reserves over the first three quarters of fiscal 2010, which was itemized against the exploration expenses reported. General and administrative expenses are relatively stable from one quarter to another. The main changes in quarterly losses or profits are explained as follows:

2009 ï March	Capital tax of $164,124 for fiscal years 2006, 2007, and 2008, which the Company disputed through a notice of objection to the Minister of Revenu of Quebec, and an unrealized loss of $180,000 on an investment recorded.
2009 ï September	Unrealized gain of $200,000 on an investment and future income taxes of $542,000 recorded.
2009 ï December	Unrealized loss of $458,500 on an investment and a gain on disposal of shares of $395,163 recorded.
2010 ï March	Stock-based compensation of $183,600 recorded.
2010 ï December	Stock-based compensation of $48,600 and a gain on disposal of interest in certain licenses of $3,856,703.

1.10 RELATED-PARTY TRANSACTIONS

During the quarter, a company (Gestion LesTrois Inc.) in which one of Pétroliaôs directors holds a minority interest billed the Company rent for a space in the amount of $2,229 (2009 ï $2,142).

Also during the quarter, another company (Géominex Inc.) in which one of Pétroliaôs directors holds a minority interest billed the Company for exploration expenses in the amount of $0 (2009 ï $41,332). As at December 31, 2010, $43,038 is due from these companies (2009 ï $23,624).

The Company shares certain administrative expenses with Ressources Appalaches, a company that shares a director. For the third quarter, it billed the Company for the following expenses:

	2010 $	2009 $
Salaries and fringe benefits	12,676	28,554
Office supplies	300	900
Telecommunications	-	1,501

A sum of $6,560 is due to this company as at December 31, 2010 (2009 ï $17,190).

Transactions were carried out with a company (Seisserv Inc.) whose majority shareholder is a director of Pétrolia. The exploration work billed to the Company for the quarter amounted to $2,484 (2009 ï $4,313). An amount of $1,164 is due as at December 31, 2010 (2009 ï $2,249).

These transactions occurred in the normal course of business at the fair exchange value established and accepted between the armôs-length parties.

1.11 ACCOUNTING STANDARDS

Readers are asked to refer to Note 2 in the financial statements dated September 30, 2010, for a detailed description of the accounting standards.

1.12 NEW ACCOUNTING STANDARDS

No new accounting standards were adopted during the quarter.

1.13 FUTURE ACCOUNTING STANDARD

IFRS Convergence

In February 2008, the Accounting Standards Board (AcSB) confirmed that Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS). IFRS rely on a conceptual framework similar to that of Canadian GAAP, but there are significant differences in terms of recognition, evaluation, and disclosures.

The transition will take place at the latest for fiscal years begun on or after January 1, 2011. Consequently, the Company expects that the interim financial statements for the three-month period ended December 31, 2011, and the annual financial statements for the fiscal year ended September 30, 2012, will be the first that it presents in accordance with IFRS.

Training

The personnel assigned to the convergence with IFRS has undergone and continue to receive training by the Order of Chartered Accountants of Quebec. Given that IFRS will change by 2011, all changes that could affect the Company must be monitored.

Affected Accounting Standards

The detailed analysis of accounting standards affected by the convergence to IFRS should be completed throughout fiscal 2010-2011. In general, much effort must be put into the presentation of financial statements, since IFRS require more disclosures.

The following list contains the main areas in which the accounting standard modifications are expected to have an impact on the Companyǿs financial statements. This list should not be considered an exhaustive list of the modifications that will result from conversion to IFRS. It aims to highlight the areas that the Company considers most important; however, the analysis of the modification is not complete, and the choice of accounting standards under IFRS, if any, has not been determined. The regulatory bodies that promulgate Canadian GAAP and IFRS carry out significant projects on a continuous basis, which could have an impact on the final differences between Canadian GAAP and IFRS and their repercussions on the Companyǿs financial statements during the coming years. The following list covers the standards that exist based on the current Canadian GAAP and IFRS. For now, however, the Company is unable to reliably quantify the expected impact of these differences on its financial statements. The standards are as follows:

Initial Adoption (IFRS 1)

IFRS 1 gives directives on the general approach to be taken when IFRS are adopted for the first time. The fundamental principle of IFRS 1 is the retrospective application of valid IFRS as of the date of initial adoption. IFRS 1 realizes that a full retrospective application may not be possible or appropriate in all situations and stipulates:

Åexemptions for certain specific aspects of certain IFRS in the preparation of the opening balance sheet; and
Åmandatory exemptions in the retrospective application of certain IFRS.

In addition, in order to ensure that the financial statements contain high-quality information that is transparent to users, IFRS 1 contains disclosure obligations to highlight the changes made to the financial statements following the convergence to IFRS.

The following table presents some of the main modifications of accounting methods which we believe should have an impact on the recording and evaluation of certain elements of the balance sheet and the income statement. Unless otherwise indicated, all accounting method modifications will be applied retrospectively.

Accounting method	**Main differences in accounting treatment**	**Potential impacts**
Provisions and contingent liabilities	IFRS require the recording of a provision if it is more likely than not that an outflow of resources will be necessary to settle the obligation, while Canadian GAAP use a higher threshold. IFRS also require that a provision be recorded in the case of onerous contracts, while according to GAAP, the recording of such a liability is only required in certain situations.	Opening balance sheet and after the transition: We have not finished our evaluation. It is possible that additional provisions will be recorded according to IFRS.
Income tax	The various accounting method modifications according to IFRS will also have an impact on the corresponding deferred tax asset or liability, unless a reduction of value is required.	Opening balance sheet: No significant impact is expected. No short-term deferred taxes. After the transition: The impact will depend on the net effect of all of the differences between the accounting methods.

	The tax consequences of a transaction recorded in other comprehensive income or directly in shareholdersô equity during previous periods must be recorded directly in other comprehensive income or directly in shareholdersô equity (ñretrospective researchò). According to Canadian GAAP, any subsequent variation of deferred taxes is charged against earnings.	Opening balance sheet: No significant impact is expected on overall shareholders' equity. After the transition: The impact on earnings will depend on the extent of the variations in deferred taxes that will be recorded in other comprehensive income or directly in shareholdersô equity.

Accounting method	Main differences in accounting treatment	Potential impacts
Stock-based compensation	IFRS requires that expected extinctions be taken into account in the recording of stock-based compensation cost at the time of the granting rather than recognize the extinctions when they occur. When the acquisition is gradual, IFRS requires that each segment of the granting be evaluated and recorded separately, as each segment has a different acquisition period, and the fair value of each will therefore be different.	Opening balance sheet: No significant impact. After the transition: The impact will depend on the method of granting stock options.

Steps in the Conversion Process:

First Step
Consists of the initial evaluation, i.e. identifying the differences between Canadian GAAP and IFRS, as well as conducting an initial analysis of IFRS 1 ï regarding exceptions for the initial switch to IFRS. This phase is now completed.

Second Step
Consists of the detailed evaluation, and includes the prioritization of accounting issues, the quantification of the impact of the conversion to IFRS, and the examination and approval of the accounting principles selected. This phase is now completed.

Third Step
Design: the accounting system and its internal controls are simple, for the Company is still in the exploration phase and should, seeing as no major challenges are anticipated, be able to operate its accounting systems according to IFRS. This being said, some Excel spreadsheets will need to be modified so as to support the changes rendered necessary by the convergence. This phase is currently being executed.

The fourth implementation phase is underway, and we are dedicating significant energy to preparing IFRS financial statement models. According to the provisions of IFRS 1, we are required to disclose not only comparative data, but also, during the year in which IFRS are adopted, the opening balance sheet at the start of the comparative period.

We feel that the Company will be in a position to prepare an interim financial report that complies with IAS-34 for its quarter ending on December 31, 2011.

Information Systems

The Company's accounting process is simple, since it is a company in the exploration stage. The Company should be able to operate its accounting systems under IFRS, since no significant challenge is foreseen. However, certain Excel spreadsheets will need to be adapted in order to support the necessary changes due to the convergence.

Internal Controls

The Company's signing officers have the responsibility of ensuring that there are processes allowing them to have the necessary knowledge in support of the declarations made in the certifications, more specifically that the documents in SEDAR are reliable. The officers will ensure that once the convergence process is completed, they will still be able to sign their certification.

Impact on Commercial Activities

The Company's business processes are simple, and no significant challenge is expected in order to operate according to IFRS. The Company has few transactions in foreign currencies and has no long-term debt or capital obligations. The Company does not expect that the IFRS will change these processes when it completes flow-through private placements. The Company has no compensation plan that will be affected by the IFRS. The stock option plan is not affected by financial ratios or objectives.

Business processes will be monitored during the 2010-2011 fiscal year in order to detect impacts not identified during our initial analysis.

1.14 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Risk Management Policy

Through its financial assets and liabilities, the Company is exposed to various risks. The following analysis provides an assessment of the risks as at December 31, 2010, the date of the balance sheet.

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 governments and related parties. Therefore, Management considers the risk of non-performance on these instruments to be very minimal.

Maximum Exposure to Credit Risk:

	2010 $	2009 $
Cash	4,151,115	4,255,802
Money market fund	1,000	3,470,552
Guaranteed investment certificates	3,600,000	-
Receivables	3,124,044	3,278,388
	10,876,159	11,004,742

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 and the sale of interests in some of its petroleum assets. One of Managementôs main financial objectives is to maintain an optimal level of liquidities by actively managing the exploration work to be performed.

Considering the liquid resources at the Companyôs disposal, Management feels that the Company is exposed to high liquidity risks.

All of the Companyôs financial liabilities have a maturity of less than one year.

Market Risk

Market risk is the risk of fluctuations in the fair value or future cash flows of financial instruments due to market factors. Market risk is comprised of three types of risk: interest rate risk, foreign exchange risk, and other price risks. The Company is exposed to two of these risks, namely interest rate risk and other price risks.

A) Interest Rate Risk
Interest rate risk refers to the effect of interest rate fluctuations on the value of investments and long-term debt.

Investments are at a fixed interest rate, and thereby expose the Company to the risk associated to variations in the fair value ensuing from interest rate fluctuations. For the quarter ended December 31, 2010, an increase or decrease of 1% in the interest rates in effect at that date (with all other variables remaining equal) would have triggered a net loss variation of $1,590.

The Company has a variable rate bank loan, and is thus exposed to interest risk due to fluctuations in the prime rate. For the fiscal year ended December 31, 2010, an increase or decrease of 1% in the interest rates in effect at that date (with all other variables remaining equal) would have triggered a net loss variation of $600.

B) Other Price Risks

The Company is exposed to fluctuations in oil and gas prices, which have an effect on the potential profitability of the oil and gas properties it holds. This can go so far as to impact the Company's exploration plans and decisions to move ahead with production.

Categorization of Financial Instruments

Financial instruments fall into one of the following five categories: held for trading, investments held to maturity, loans and debts, financial assets available for sale, or other financial liabilities. The category determines the instrumentôs accounting treatment. The Company establishes the category during the initial recording of the financial instrument based its underlying goal.

The Companyôs financial assets and liabilities are categorized and valued as follows:

Financial assets/liabilities	Category	Valuation
Cash and cash equivalents	Held for trading	Fair value
Receivables	Loans and debts	Cost after impairment
Investments	Held for trading	Fair value
Trade and other payables	Other financial liabilities	Cost after impairment
Loan	Other financial liabilities	Cost after impairment

Financial instruments valued at the cost after impairment are initially recognized at fair value then at the cost after impairment, with gains and losses recognized in net earnings for the period during which the gain or loss occurs. Changes in the fair value of financial instruments categorized as held for trading are recorded in net earnings for the period during which the change takes place.

Fair Value

The fair value of investments is determined as follows:

Guaranteed investment certificates: given their recent issuance, the fair value corresponds to their cost.

Money market funds: given their short-term maturity, the fair value corresponds to their cost.

As regards the loan, the accounting value is quite close to the fair value, and this because of a variable interest rate on the debt.

Hierarchy of Fair Value Valuations

Financial instruments recorded at fair value on the balance sheets are categorized according to a hierarchy that reflects the significance of the data used to carry out the valuations.

The hierarchy of fair value valuations is broken down into the following levels:

Level 1 ï valuation based on the prices (non-adjusted) listed on the asset markets for identical assets or liabilities: cash is found on this level.

Level 2 ï valuation techniques based on data other than the listed prices referred to in level 1 observable for assets or liabilities directly (prices) or indirectly (price derivatives): cash equivalents and investments are found on this level.

Level 3 ï valuation techniques based on a significant share of data related to the asset or liability not based on observable market data (non-observable data).

The hierarchy that applies as part of the determination of the fair value requires the use of data observable on the market each time such data exist. A financial instrument is placed at the lowest level of the hierarchy for which a piece of significant data has been taken into account in the valuation of the fair value.

There was no transfer in the valuation of financial assets between levels 1 and 2 during the quarter.

The fair value of financial instruments for the period ending on December 31 is summarized as follows:

	2010		**2009**	
	Book value $	**Fair value $**	**Book value $**	**Fair value $**
Financial assets held for trading:				
Cash and cash equivalents	7,752,115	7,752,115	7,726,354	7,726,354
Investments	754,331	754,331	380,000	380,000
Loans and debts:				
Receivables	3,124,044	3,124,044	3,278,388	3,278,388
Other financial liabilities:				
Trade and other payables	1,594,854	1,594,854	2,925,264	2,925,264
Loan	2,243,310	2,243,310	-	-

RISK AND UNCERTAINTY

The mining 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, which could in themselves be affected by various factors. These factors include environmental regulations, the characteristics of future mining deposits (quality and quantity of resources), production infrastructure development costs, financing costs, the cost of metals, the market value of mining products, and the competitiveness of the industry. The successful completion of reserve exploration and development projects will require major investments. Without cash flows generated by mining operations, the Company is dependent on capital markets for the financing of its exploration and development activities. Market conditions and other unexpected events could have an impact on the Company's ability to raise the funds needed to grow.

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 Pétroliaôs Web site at: **www.petroliagaz.com**.

b) Rule 51-102 Section 5.2

The deferred exploration expenses for the quarter ended December 31, 2010, are detailed as follows:

	Geology $	Analysis $	Geophysical surveys $	Drilling $	Completion $	General expenses $	Evaluation of oil reserves $	Stock-based compensation $	Total $
Anticosti	11,724	40	220	168,042	-	6,405	-	11,310	197,741
Gastonguay	549	-	-	-	-	-	-	76	625
Gaspésia-Edgar-Marcel-Tremblay	56,962	-	210	-	-	740	-	160	58,072
Gaspé	10,629	20	16,081	25,263	3,654	18,393	-	338	74,378
Gaspé Bourque project	6,550	-	970	-	-	-	-	616	8,136
Gaspé Haldimand project	61,023	40	25,345	83,201	45,369	53,106	50,278	8,715	327,077
Gaspé Tar Point project	1,237	-	693	46,415	4,327	30	-	12,909	65,611
Dalhousie (New Brunswick)	2,372	40	4,675	-	-	1,120	-	76	8,283
	151,046	140	48,194	322,921	53,350	79,794	50,278	34,200	739,923

b) <u>Rule 51-102 Section 5.2</u>

The deferred exploration expenses for the quarter ended December 31, 2009, are detailed as follows:

	Geology $	Geophysical surveys $	Drilling $	General expenses $	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	4,551,415

c) <u>Rule 51-102 Section 5.3</u>

Information on shares issued, warrants, and stock options as at February 11, 2011:

<u>Common shares</u>: 50,117,287 common shares have been issued and are outstanding.

<u>Warrants</u>: Warrants can be exercised as follows:

Å2,163,161 shares at a price of $1.30 per share until December 4, 2011;
Å1,750,000 shares at a minimum price of $1.00 per share until October 10, 2012;
Å3,000,000 shares at the minimum price of $1.00 per share until January 10, 2013.

<u>Stock options outstanding</u>: The stock options granted to its directors, members of senior management, employees, and service providers are as follows:

Å150,000 options exercisable at a price of $0.58 per share until May 10, 2011;
Å50,000 options exercisable at a price of $0.74 per share until May 21, 2012;
Å662,500 options exercisable at a price of $0.40 per share until June 21, 2012;
Å400,000 options exercisable at a price of $0.60 per share until February 12, 2013;
Å150,000 options exercisable at a price of $0.60 per share until March 3, 2013;
Å427,500 options exercisable at a price of $1.25 per share until July 7, 2013;
Å180,000 options exercisable at a price of $0.74 per share until May 21, 2014;
Å270,000 options exercisable at a price of $0.89 per share until February 25, 2015;
Å920,000 options exercisable at a price of $0.50 per share until December 8, 2015.

1.16 MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The quarterly financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and have been reviewed by the audit committee and approved by the board of directors. 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 respects.

Rimouski, February 11, 2011

On behalf of the Board

(signed) *André Proulx*

André Proulx
President