Management discussion and analysis for the period ended December 31, 2011

INTERIM MANAGEMENT DISCUSSION AND ANALYSIS FOR THE FIRST QUARTER ENDED DECEMBER 31, 2011

This interim management discussion and analysis (MD&A), approved by the Board of Directors, 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, 2011 and 2010, 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, 2011. It may also cite significant events that occurred after December 31, 2011, and provides a preview of activities during the coming months.

The reporting currency is the Canadian dollar (CAD) and all amounts presented in the MD&A are in Canadian dollars.

1. DATE

This management discussion and analysis for the fiscal year ended December 31, 2011, is dated February 23, 2012.

2. INCORPORATION AND MISSION

The Company, incorporated under Part 1A of the Québec Companies Act and governed by the provisions of the Québec Business Corporations Act, is an oil and gas exploration company. It has been listed on the TSX Venture Exchange since February 16, 2005, under the symbol PEA.

The Company's oil and gas properties are at the exploration stage, and the Company's long-term profitability is tied in part to the cost and success of the exploration programs and subsequent development. The Company has not yet established whether its properties include economically feasible reserves.

The Company's core business is exploring and developing oil and gas properties. In order to achieve its objectives, the Company has to form partnerships with other industry stakeholders.

3. FORWARD-LOOKING STATEMENTS

Certain statements in this document are "forward-looking statements." Such statements relate to future events or future economic results anticipated by Pétrolia and are therefore subject to known and unknown risks, uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. 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.

4. HIGHLIGHTS OF THE YEAR ENDED DECEMBER 31, 2012

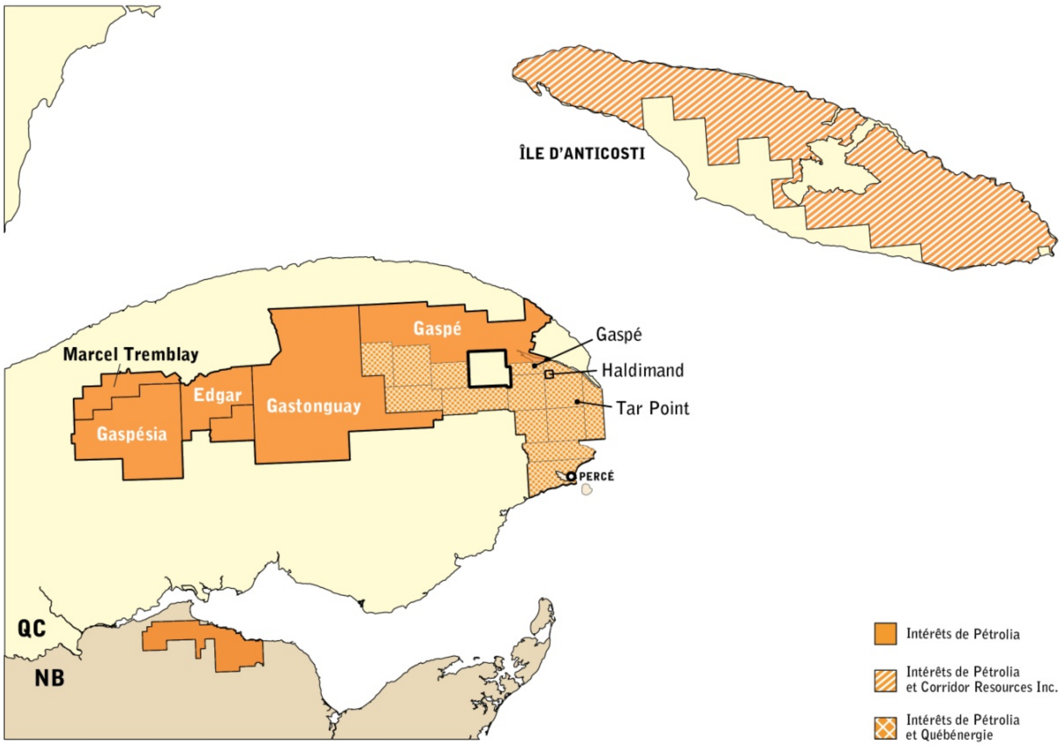
- Increase in Pétrolia interests in the Haldimand property;
- Announcement of new positive results regarding potential on Anticosti Island;
- Modification and completion work on the Haldimand No. 1 well and Tar Point;
- Participation in and start of hydrogeological characterization work on the Haldimand peninsula.

5. STRATEGY AND OUTLOOK

The Company's objective involves discovering oil resources and putting them into production as quickly as possible, with the goal of becoming profitable. The Company continues to pursue this objective, bearing 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 and financial expertise. The Company installs wells according to scientific and technical principles, and relies on the best industry practices for its drilling activities. Particular attention is also paid to relations with the local socioeconomic environment.

6. LICENCES AND PARTNERSHIPS

The licenses held by Pétrolia as well as those in which it holds interests cover a territory of approximately 14,000 km2. The licence holdings appear on the map below.



6.1 Partnerships

The above map also illustrates the territories covered by both partnership agreements entered into by Pétrolia:

- The first was concluded with Corridor Resources Inc. and concerns all licences located on Anticosti Island. Pétrolia holds a 50% interest in 29 licences, and a 25% interest in 6 licences. Pétrolia is the operator for 23 licences, and Corridor Resources Inc. owns the other interests and is the operator for 12 licences.

- The second agreement covers a portion of the territory on the Gaspé peninsula (about 2,500 km^2) where interest is shared equally with Québénergie Inc.

7. A DOMINANT POSITION

In Québec, oil resources are found in the east of the province, in the Gaspé region, on Anticosti Island, and perhaps in the Gulf of St. Lawrence. Since it was founded in 2005, the Company has acquired licences that cover more than 14,000 km^2, mainly in the Gaspé region and on Anticosti Island. These licences cover more than 70% of Québec's land petroleum potential, giving Pétrolia a dominant position in Québec in terms of petroleum exploration.

The Company decided to concentrate its efforts on searching for oil. The rise in the price of oil and natural gas has made the Company's decision appear wise in hindsight. A number of companies active in the North American hydrocarbon exploration sector are now making the same choice.

8. PROPERTIES AND WORKS

8.1 Haldimand property

The recoverable oil resources from the Haldimand deposit, near Gaspé, are estimated at 7.7 million barrels on 9 km^2 (best estimate by Sproule Associates Limited in June 2010). However, this figure may be higher since the geophysical data indicate that the structure extends beyond this area, in particular to the west.

In December 2011, Pétrolia and Québénergie concluded an agreement with Junex to buy back this company's share in the 9-km^2 territory that comprises the Haldimand deposit. With this agreement, Pétrolia and Québénergie now own equal shares in all interests in the deposit and its possible extensions.

8.1.1 Objectives

In keeping with its business strategy, putting the Haldimand deposit into production constitutes Pétrolia's main priority. Drilling a horizontal well appears to be the best way to achieve this objective in the short term.

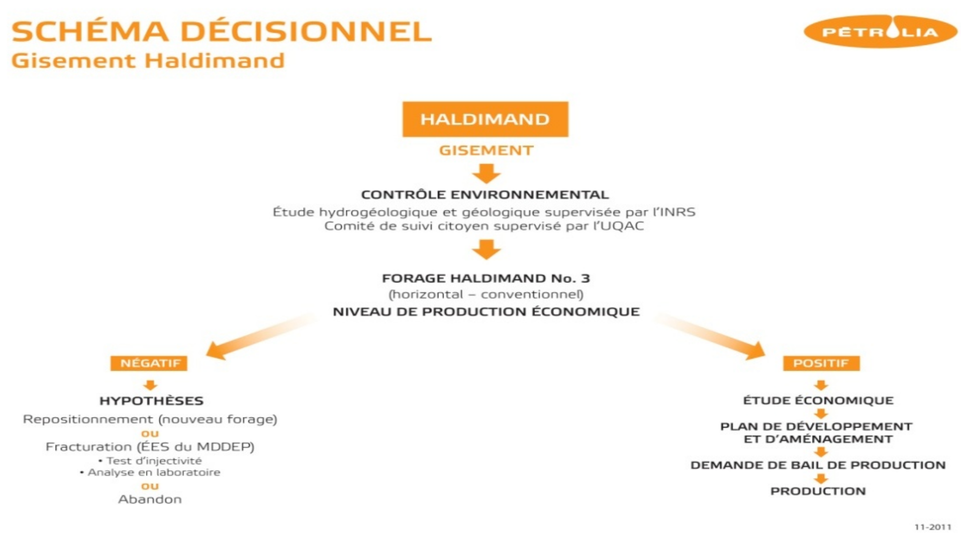
Identifying volumes in addition to those already estimated is the second objective. These additional volumes could be associated with an extension of the reservoir beyond the perimeter initially established in the estimate or with the discovery of new reservoirs.

8.1.2 Studies and projects

As a result of these studies and analyses, the Company now has a better understanding of the Haldimand reservoir and its production mechanism. The reservoir appears to be made up of a network of natural fractures that ensure the free flow of oil. This is an important discovery that may allow for conventional exploitation, in other words, without having to resort to fracturing.

The next well could confirm the hypothesis that traditional exploitation of the deposit would be profitable. In this case, Pétrolia could eliminate the use of hydraulic fracturing to exploit the deposit. Studies on the potential use of fractioning were nevertheless conducted during the quarter and are described further on.

The following flowchart illustrates the planned work and possible decisions.



8.1.2.1 Studies

Studies were carried in the first quarter of 2012 to understand the deposit's natural permeability mechanism. Studies were also done on the distribution of hydrocarbons to identify the areas likely to be the most productive. These studies aimed to determine the trajectories of new directional wells in order to optimize the natural productive potential. The drilling of the next well should yield a better understanding of the scope of the Haldimand structure and confirm the resources.

During the quarter, work continued to create a digital model that would integrate the full range of data on the deposit (including well and seismic data) to produce a three-dimensional map of the oil deposits in the field. Future data can be integrated into the model, thus enabling better planning of the work to come.

The studies conducted during the first quarter of 2012 include:

- A study of the fractures observed in the Haldimand No. 2 core samples and the FMI log in order to better understand the field's hydrocarbon flow;
- A study of the natural fractures in the deposit, specifying their orientations and identifying areas where fracture intensity could be higher;
- Reprocessing of 3D and 2D data;
- An anisotropy study based on 3D seismic data;
- A preliminary interpretation of the results of the magnetotelluric survey of the Haldimand deposit in 2010 and 2011. This interpretation is a complement to those already done based on 2D and 3D seismic data.

8.1.2.2 Projects

a) Production tests

Several production tests were performed on the Haldimand No. 1 well. During these tests, begun on June 30, 2010, and stopped on October 14, 2011, the well produced a total of 655 m3 (4,120 barrels) of oil. These tests yielded additional information on the deposit in order to better characterize it. A portion of the well's production was placed in inventory.

b) Modification and completion work at the Haldimand No. 1 well

During the quarter, Pétrolia successfully completed modification and completion work on the Haldimand No. 1 well in compliance with the permits granted.

Specifically, the completion work involved conducting an injectivity test to measure certain mechanical properties of the rock in the reservoir. This work was followed by a three-day production test, which revealed a stable production level of more than 40 barrels per day, which is much higher than levels observed during previous production tests (10 barrels/day). A new production test could be done during the spring.

This result confirms the interpretation that the deposit productivity is ensured by a network of natural fractures. It also appears that the injectivity test may have contributed to repairing the damage caused to the well during drilling and other previous work.

c) Drilling of a third well

As mentioned previously, the natural fractures in the reservoir play an important role in the production mechanism, acting as a drain that channels the oil from the low permeability layers towards the well. Given the fracture orientations, the production capacity of the natural fractures in the deposit could be confirmed by drilling a directional well. The goal of the next well is therefore to intersect as many natural fractures as possible from a good angle.

Under the agreement with Québénergie, the latter will assume Pétrolia's participation costs.

8.1.3 Environmental studies and work

Concurrently with these studies, the Company is working on a plan to acquire scientific and environmental monitoring information.

The Company is working with scientists from various Québec universities (INRS and UQAC) to acquire specific knowledge on the environmental effects of its work, a project that was begun in the last quarter and will spread over the next five years.

Accordingly, starting in fall 2011, the INRS will survey the hydrogeological system on the Haldimand peninsula, and implement environmental monitoring systems for the oil activities. The INRS will be responsible for designing the plan and monitoring the work. The information and results from this survey and 5-year monitoring plan will be released periodically.

Industry stakeholders were also invited to participate in this project, and liaisons with the latter are ensured by the UQAC *Chaire d'Éco-conseil*. More specifically, other than the training and publication aspects of its scientific research mission, the *Chaire d'éco-conseil* aims to promote dialogue from an environmentally responsible perspective between the various stakeholders interested in petroleum development.

Pétrolia is very proud of the innovative nature of its relationship with Québec's universities, established from the earliest stages of its activities, as well as the universities' collaboration with industry stakeholders.

8.2 Tar Point property

Drilled in 2009 and located 15 kilometres southeast of the Haldimand well, this well has bottomed out at 2,434 metres. It crosses the entire York River Formation as well as part of the Indian Cove Formation.

There were few signs of oil in the York River Formation but light crude was found during a production test on a fractured zone of the Indian Cove Formation.

8.2.1 Objectives

The objective is to demonstrate the Indian Cove Formation's capacity for commercial oil production. Since signs of oil have been systematically observed in this formation, this area offers an interesting exploration opportunity in the Gaspé region.

8.2.2 Studies and projects

The drilling results for Pétrolia-Tar Point No. 1 confirm Indian Cove's high hydrocarbon potential. The characteristics found in this Formation indicate a fractured potential deposit. Pétrolia is evaluating the various options for exploiting the potential of this Formation.

During the quarter, Pétrolia conducted modification and completion work on the Tar Point well. More specifically, the completion work involved performing an injectivity test at Indian Cove to gather data on the mechanical properties of the rock; these data are currently being analyzed to determine if the test achieved all of its objectives. The results should be known during the next quarter.

8.3 Bourque property

The Bourque project is very important to Pétrolia in view of the size of the potential discoveries and the interest this would generate in the Company's other properties in the Gaspé region, characterized by similar geologic conditions. The targets in question are conventional in nature.

A 3-D seismic survey carried out by Pétrolia in 2008 suggests the presence of a reef complex in the West Point Formation, an older geological formation than York River. This type of trap can store considerable quantities of hydrocarbons. The first trap is a pinnacle reef, the same as the Leduc reef in Alberta, in which giant oilfields have been discovered, marking a turning point for oil and gas exploration in that province. The second structure is a barrier reef.

8.3.1 Objectives

The two structures targeted by the project have completed the preliminary exploration stages and have reached the drilling stage. Pétrolia would like to drill a borehole on each of these targets as soon as possible. The completed drilling programs were submitted to the MRNF at the end of the fiscal year ended September 30, 2011. The MRNF came back with a series of technical questions, which Pétrolia answered. The MRNF analysis was still underway at the time of writing.

Located 70 km west of Gaspé City, the Bourque project offers an opportunity to discover a significant deposit. The total depth of the targets range from 2,000 to 3,200 metres. This project is also likely to generate significant economic spinoffs associated with raw material processing in an economically depressed region.

8.3.2 Studies and projects

The Bourque No. 1 and No. 2 drilling program was based on the recommendations of the supplemental impact study published by the New York State Department of Environmental Conservation. Under the new Environmental Quality Act, wells that are not intended for hydraulic fracturing are unaffected by the new approval procedures that fall within the framework of the strategic environmental assessment. This is conducive to the short-term drilling of the boreholes.

8.3.3 Search for partners

Over the last quarter, Pétrolia continued to search for a partner, which Management considers preferable for this project. That said, the Company may decide to drill alone.

8.4 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. This vast territory offers a number of exploration possibilities.

8.4.1 Shale oil

The core sample extracted from the shale in summer 2010 at the Macasty Formation (Pétrolia Corridor Chaloupe No. 1 well) has created a new exploration possibility on Anticosti Island. This formation is the lateral equivalent of the Utica shale wells in Ohio, which have garnered significant industry attention.

The analyses performed by a laboratory in Weatherford, Houston, and by Schlumberger Canada confirm that the Macasty shales contain considerable quantities of oil and that the formation has the characteristics required to develop this potential oil play, which is sparking attention all over the world.

On June 29, Pétrolia unveiled the estimate of the Macasty shale in-place oil reserves conducted by Sproule Associates Limited of Calgary. Sproule's best estimate for the total volume of initially-in-place oil in the Macasty shale (covered by licences in which Pétrolia has an interest) is 30.9 billion barrels. There is a 10% probability that this volume is equal to or greater than 48.2 billion barrels (high estimate), and a 90% probability that it amounts to at least 19.8 billion barrels. The Company's interests cover more than 6,000 km^2.

The table below summarizes Spoule's estimate:

Estimates of the total volume of petroleum initially in place [1]
Macasty shales, Anticosti Island, Québec
As of June 1, 2011

Classification	Company's interests	Low estimate (P-90)[3] Billions of BOE[6]	Best estimate (P-50)[4] Billions of BOE[6]	High estimate (P-10)[5] Billions of BOE[6]
Petroleum initially in place [2] Undiscovered	**Pétrolia's gross interests**	**19.8**	**30.9**	**48.2**
	Pétrolia's net interests	**9.1**	**14.1**	**22.0**

1. The total volume of oil initially in place is the amount of original oil estimated to exist naturally in a shale formation. This includes the estimated quantities that, on a given date, are contained in known accumulations prior to production, plus estimated quantities in accumulations yet to be discovered.
2. Undiscovered petroleum initially in place (equivalent to undiscovered resources) are those quantities of petroleum that are estimated, on a given date, to be contained in accumulations yet to be discovered. The recoverable portion of undiscovered petroleum initially in place is defined as a prospective resource, with the rest remaining non-recoverable. Undiscovered resources are subject to risks: there is no guarantee that even a portion of these resources will be discovered. A recovery project cannot be defined for this volume of undiscovered petroleum initially in place at this time. There is no certainty as to the commercial viability of producing a portion of these resources.
3. The probability that the current in-place volume is greater than or equal to that estimated is 90%.

4. The probability that the current in-place volume is greater than or equal to that estimated is 50%.
5. The probability that the current in-place volume is greater than or equal to that estimated is 10%.
6. BOE – barrel of oil equivalent. The use of the oil-equivalent unit reflects the uncertainty as to the type of hydrocarbon that will be encountered on the properties as a whole.

Moreover, on December 1, 2011, Pétrolia revealed new test results suggesting that the Macasty shale is very similar to that found in the Utica shale in Ohio, where several oil companies are active. The new tests were carried out by the laboratories of a major independent oil company that is one of the industry leaders of shale oil and gas production and exploration. The results obtained are more encouraging than those released by the partners on February 9, 2011, and confirm the high oil and gas production potential of the Macasty Formation.

The main finding from the tests shows permeability values varying between 197 and 739 nanodarcys, with an average of 479 nD. The tests also show hydrocarbon saturation values of almost 70%, which is a positive characteristic of this type of rock. The tests also confirm high levels of total organic carbon (TOC), with an average value of 4.34%, and organic matter maturity (Tmax) conducive to oil production. These exceptional permeability values, combined with the hydrocarbon saturation values and TOC levels, constitute a set of positive factors essential to achieving the objective of commercial oil shale production at the Macasty Formation.

Parameters	Macasty shales
Mineralogy (average %)	quartz 35%, plagioclase 7%, carbonate 10%, clays 28%, other 20%
Total depth	40 m (130 ft.)
Total porosity	2.4 to 5.1% (average: 3.6%)
Oil saturation	25.0 to 31.3% (average: 27.8%)
Gas saturation	37.5 to 45.9% (average: 40.9 %)
Water saturation	25.2 to 38.1% (average: 31.3%)
Permeability	197 to 739 nd (average: 479 nd)
Total organic carbon	2.38 to 5.74 wt% (average: 4.34 wt%)
Thermal maturity	8.9 (%Ro) (calculated from Tmax)

8.4.2 Conventional targets

Conventional structural exploration has been carried out on the island since 1960 but to date has yielded no conclusive results.

Semi-conventional fault trough exploration was more recently conducted by Shell, Hydro-Québec and Corridor Resources Inc. This type of exploration, known in industry jargon as “sags,” was very successful in the Appalachian Basin (Ontario and New York State). While exploration by Pétrolia and Corridor in

2010 failed to meet expectations in terms of discoveries, it did confirm the existence of very high quality reservoirs associated with fault troughs (production of 5,000 barrels of salt water per day in the Pétrolia Corridor Saumon No. 1 well).

However, these opportunities do not appear in the priorities listed by the Company, which prefers to focus its efforts on developing the potential at Macasty.

8.4.3 Search for partners

The exploration program on Anticosti Island, particularly with regard to the Macasty shales, is currently 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.

Developing Anticosti Island will require significant capital. Finding partners with the requisite financial and technical resources is therefore a priority. Pétrolia is actively assessing the available options in the best interests of its shareholders.

8.4.4 Environmental research

Pétrolia has confirmed its support as a private-sector partner in the Anticosti Chair led by Université Laval. A specific project has been developed to determine the impact of oil operations on the behaviour of white-tailed deer, an important economic and tourism resource for Anticosti Island. The Anticosti Chair has received confirmation from the Natural Sciences and Engineering Research Council of Canada (NSERC) that its budget will be renewed. Pétrolia is proud to be associated with the Anticosti Chair's work. This research will provide the knowledge needed to improve practices and promote eco-friendly development. Our participation ($200,000 over five years) attests to the Company’s commitment to the communities in which it operates.

8.5 OTHER PROPERTIES

As in recent quarters, Pétrolia focused on the Haldimand, Bourque, and Anticosti projects. As such, while sufficient to meet its obligations, the Company's activities on its other properties were limited.

A seismic program was developed during the quarter to identify a drilling target on a potential trap discovered during a 2008 survey; an application has been submitted for a geophysic licence. A more extensive study of the survey parameters is underway to maximize the cost-benefit ratio of the project, to be done in 2012. Given that thermal maturity studies indicate that gas is more likely to be discovered in this target, the Company has made it a priority to develop the Haldimand property. The potential emergence of gas projects in the region could cause the Company to rethink its priorities and rekindle interest in a drilling project in the Gaspésia property.

One of the four licences for the Dalhousie property in New Brunswick has expired and the Company did not renew it due to the lack of progress in the natural gas market in New Brunswick and its focus on its other projects in Québec. The status of the other license in this province has therefore not changed. Pétrolia will continue monitoring the situation in New Brunswick.

9. MODIFICATION OF THE LEGISLATIVE AND REGULATORY FRAMEWORK

During the quarter, no legislative or regulatory amendments were adopted. In the past year, however, the Government of Québec has made several changes to the legislative and regulatory framework for oil and gas production, Pétrolia's short-term activities will face some delay regarding the permit issuance.

The adoption of Bill 18, an *Act to limit oil and gas activities*, introduced three changes aimed at:

- banning oil and gas activity on islands in the river and estuary portion of the St. Lawrence;
- exempting holders of exploration licences from performing the work required under the *Mining Act* and submitting a report to the Ministry until June 13, 2014;
- extending the validity of all exploration licences in Québec for the same period as the moratorium.

In addition, the Ministère du Développement durable, de l'Environnement et des Parcs (MDDEP) amended the *Regulation respecting the application of the Environment Quality Act*. As a result, an environmental authorization certificate is required for all shale drilling and fracking operations. The amendment also requires companies to hold a public consultation before applying for a certificate for this type of work.

Lastly, concerning strategic environmental assessments, the MDDEP has adopted a regulation aimed at providing information on shale drilling and fracking operations.

10. MANAGEMENT ANALYSIS OF FINANCIAL INFORMATION

10.1 Operating results and cash position

For the first quarter of 2012, the financials statements will be the first under IFRS. The Company's revenues consisted of interest income on short-term investments of $59,219, compared with $6,522 for the first quarter of 2011, and project management income of $16,276, compared with $0 for the first quarter of 2011. Revenues from oil reservoir evaluations stood at $22,000, against $44,221 for the first quarter of 2011, and are recorded as a reduction in deferred exploration expenses.

The increase in interest income stems from the increase in cash flow, achieved as a result of the Québénergie transaction, which generated an inflow of $6,690,000, as well as the exercise of warrants and options totalling $4,804,148 during fiscal 2011.

As at December 31, 2011, the Company had cash and cash equivalents of $7,533,250 and working capital of $8,157,498.

During the quarter, the Company issued 264,721 shares in consideration for $344,136. These shares were issued during the subscription warrants exercise.

The Company reimbursed its $2,243,310 bank loan after collecting tax credits receivable for 2010.

During the quarter, the Company bought back 50% of Junex's participation in the Haldimand property for $1,551,000, with Québénergie acquiring the remaining 50%.

For the first quarter of 2012, the Company recorded a loss of $1,150,642, compared to a profit of $3,485,658 in Q1 2011, which was primarily due to a gain on the disposal of interests in some of its licenses.

Management believes that it has sufficient cash to meet its current obligations. For its financial needs, the Company can rely on its ability to raise capital through public offerings and negotiated private placements.

10.2 Analysis of operating and administrative expenses

Operating and administrative expenses rose $405,360, mainly due to an increase in exploration activities.

The main differences in the operating and administrative expenses are:

- Stock-based compensation: 1,266,000 options valued at $558,992 were granted in December 2011, as compared to 920,000 options in December 2010 for a value of $74,543.

- Salaries and benefits: Operations-related payroll increased slightly. Administrative and technical staff were hired.
- Rent: Lease expenses rose in 2011, mainly due to the expansion of the Québec City offices.

10.3 Summary of quarterly results

	Under IFRS	**Under Canadian GAAP**						
		2011			**2010**			
	December	**September**	**June**	**March**	**December**	**September**	**June**	**March**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Revenue	19,270	75,160	51,373	45,386	6,522	(46,658)	47,342	6,646
Net earnings (net loss)	(1,150,642)	(443,251)	(488,636)	(384,846)	3,477,401	(330,057)	(244,544)	(402,692)
Net earnings (net loss) per share								
Basic	(0.022)	(0.010)	(0.010)	(0.008)	0.0695	(0.0068)	(0.0053)	(0.0092)
Diluted	(0.022)	(0.010)	(0.010)	(0.008)	0.0571	(0.0068)	(0.0053)	(0.0092)

Revenue consists mostly of interest earned for each of the quarters. Fourth quarter revenue was negative mainly due to the reclassification of petroleum reserve assessment income of the first three quarters of 2010, which was charged against the deferred exploration expenses. General and administrative expenses were fairly stable from quarter to quarter. The main changes in quarterly losses or profits are explained as follows:

2010 - March	Recording of stock-based compensation of $183,600.
2010 - December	Recording of stock-based compensation of $82,800 and a gain on disposal of interests in certain licenses of $5,158,607.
2011 - February	Recording of stock-based compensation of $71,400.
2011 - May	Recording of stock-based compensation of $160,750.
2011- September	Restatement of all stock-based compensation for the year using the graded vesting method; this restatement had a non-monetary impact of $185,258;
2011- December	Recording of stock-based compensation of $558,992.

10.4 Related-party transactions

The Company's related parties include the other related parties and the main officers as explained below.

Unless otherwise indicated, none of the transactions involves any special characteristics or conditions; no guarantees were given or received. The balances are generally settled in cash.

Transactions with main officers

Compensation for the main officers includes the following:

	Three-month period ended December 31	
	2011	**2010**
	$	**$**
Short-term benefits:		
Salaries and fringe benefits	113,442	89,607
Directors' fees	29,449	23,949
Total short-term benefits	142,891	113,556
Stock-based compensation	330,244	22,176
Total compensation	473,135	135,732

During the presentation of financial statements for 2011, no option granted under share-based payment plans was exercised by the main officers.

Related corporations

Transactions were made with two corporations whose main officer (holding a minority interest) also sits on Pétrolia's board:

	Three-month period ended December 31	
	2011	**2010**
	$	**$**
Balance sheet:		
Exploration and evaluation assets	2,394	-
Results:		
Salaries and fringe benefits	-	-
Other expenses	-	2,229

As at December 31, 2011, an amount of $26,366 is due from these companies (2010 – $41,895).

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

	Three-month period ended December 31	
	2011	**2010**
	$	**$**
Balance sheet:		
Exploration and evaluation assets	2,062	2,484

The balance due to this director is $2,349 as at December 31, 2011 (2010 – $1,164).

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

	Three-month period ended December 31	
	2011	2010
	$	$
Results:		
Salaries and fringe benefits	1,188	12,676
Office supplies	300	300

The balance due from this company as at December 31, 2011, is $1,150 (2010 – balance due of $6,560).

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

	Three-month period ended December 31	
	2011	2010
	$	$
Balance sheet:		
Fixed assets	8,607	-

The balance due to this supplier as at December 31, 2011 is $0 (2010 – $0).

Management considers that these transactions were concluded under the same conditions as transactions with non-related parties. These transactions occurred in the normal course of business and are valued at the exchange value, which is the amount of the established consideration accepted by the related parties.

10.5 Commitments and eventualities

The Company has signed leases until 2016 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 $1,284,545, of which $5,000 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:

2013	2014	2015	2016
$275,247	$275,247	$275,247	$183,498

The Company has undertaken to support the renewal of the NSERC-Anticosti Forest Products Industrial Research Chair by contributing $200,000 $ over a 5-year period. A portion of these costs could potentially be assumed by a partner.

The following minimum payments will be due over the course the next few fiscal years:

2013	2014	2015	2016
$40,000	$40,000	$40,000	$40,000

Financing

The Company is financed partially by the issue of flow-through shares, and it met all of its commitments regarding exploration work. However, despite taking all necessary measures in this regard, there is no guarantee that the funds spent by the Company in relation to these shares will be declared eligible by the taxation authorities in the event of an audit. The refusal of certain expenditures by the tax authorities could therefore have negative tax implications for the investors.

Environment and letters of guarantee

The Company's operations are governed by environmental protection laws. The environmental consequences, in terms of outcomes, timeline and impacts, are difficult to identify. Currently, to its officers' best knowledge, the Company is operating in compliance with current laws and regulations. Letters of guarantee for the closure of certain sites were issued to the Ministère des Ressources naturelles for an amount of $930,000.

These letters of guarantee are backed by GICs in an equivalent amount.

On October 5, 2011, a motion for compensatory and punitive damages was filed against the Company in a lawsuit brought by Pétrolia against Ugo Lapointe and the Le Soleil newspaper. The amount of the lawsuit is estimated at $400,000. The Company intends to contest the demands made in the motion.

10.6 Change in accounting standards

Changeover to IFRS

The Company adopted International Financial Reporting Standards (IFRS) for its fiscal year 2012, as required by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. The first complete set of annual financial statements in accordance with IFRS will be those for the year ended September 30, 2012, including comparative information for the year ended September 30, 2011.

The Company provided information on its transition to IFRS in notes 26 and 27 to its interim financial statements for the three-month period ending December 31, 2011. It gave a detailed description of its transition to IFRS, specifically the reconciliation of each item in our financial statements initially prepared according to Canadian GAAP and those prepared according to IFRS.

Below are the important elements stemming from the transition:

IFRS 1 (*First-time adoption*) provides guidance to entities on the general approach to be taken when first adopting IFRS. The underlying principle of IFRS 1 is retrospective application of IFRS, such that the opening balance sheet in the comparison financial statements is restated as though the Company had always applied IFRS, with the net incidence presented as a readjustment of the balance of retained earnings. However, IFRS 1 stipulates certain mandatory exceptions and authorizes certain optional exemptions to the retroactive application of these standards. Moreover, there are major differences between the previous accounting methods compliant with Canadian GAAP and the new ones compliant with IFRS. The following section provides a brief description of the prescribed exceptions, the exemptions used, and the differences between accounting methods compliant with GAAP and the new methods compliant with IFRS that have an impact on the Company.

First-time adoption – applicable exceptions and exemptions

At the time of the transition, IFRS 1 dictates certain mandatory exceptions and optional exemptions to complete retroactive application. The following exceptions and exemptions were adopted by the Company:

Mandatory exceptions

a) Estimates
The estimates established by the Company according to IFRS as at the date of transition to IFRS are consistent with the estimates established on the same date according to the accounting standards in effect before the changeover, after adjustments to reflect all differences between accounting methods, where applicable.

b) Derecognition of financial assets and liabilities
The financial assets and liabilities that were derecognized before October 1, 2010, according to GAAP, were not recorded according to IFRS.

Optional exemption

The Company decided not to retroactively apply IFRS 2 (Share-based payments) to stock options granted before November 7, 2002, or to options granted after November 7, 2002, whose rights became acquired before the transition date, i.e. October 1, 2010.

Reconciliation of shareholders' equity	**As at September 30, 2011**	**As at December 31, 2010**	**As at October 1, 2010**
	$	**$**	**$**
Shareholders' equity according to Canadian GAAP	34,103,341	30,165,826	26,605,625
Impacts of the transition to IFRS:			
Transfer of contributed surplus - expired stock options to contributed surplus:			
• contributed surplus – expired stock options	(903,797)	(783,366)	(783,366)
• contributed surplus	903,797	783,366	783,366
Issue of flow-through shares			
Issue premium			
• share capital	(637,500)	(637,500)	(637,500)
Deferred taxes transferred from share capital to retained earnings			
• share capital	2,793,592	2,793,592	2,793,592
• retained earnings	(2,793,592)	(2,793,592)	(2,793,592)
Stock-based compensation – administration			
• Contributed surplus	(3,261)	(3,261)	-
• retained earnings	3,261	3,261	-
Stock-based compensation - transactions			
• retained earnings	-	4,996	-
Adjustments/changes to taxation rate			
Deferred taxes transferred from share capital to retained earnings			
• share capital	(18,023)	(28,315)	(28,315)
• retained earnings	18,023	28,315	28,315
Completion of accreditation work			
• retained earnings	637,500	637,500	637,500
Shareholders' equity according to IFRS:	34,103,341	30,170,822	26,605,625

The earnings and overall earnings for the presentation of financial statements for the periods ended December 31 and September 30, 2011, can be reconciled with the amounts presented according to the accounting standards in effect before the changeover, as follows:

	For the fiscal year ended September 30, 2011	For the quarter ended December 31, 2010
	$	$
Net earnings and total earnings according to accounting standards in effect before the changeover	2,160,668	3,477,401
Variation in earnings already established due the following difference between accounting standards in effect before the changeover and IFRS standards:		
Stock-based compensation	-	8,257
Total earnings according to IFRS	2,160,668	3,485,658

Cash flow statements

According to accounting standards in effect before the changeover, the interest paid and receipts were presented in the notes. Under IFRS, interest is classified under investment and financing activities. There are no other significant adjustments to the consolidated cash flow statement. The cash flow components according to the accounting standards in effect before the changeover are similar to those according to IFRS.

Impairment losses recorded at the transition date

The Company applied IAS 36, "Impairment of assets," to determine if the impairment losses had taken place at the transition date to IFRS. No impairment loss (or reversal) was noted.

The estimates used in this analysis were consistent with those used according to the accounting standards in effect before the changeover on the same date, after the readjustments to reflect any difference between accounting methods, where applicable.

Notes regarding reconciliations

The headings below indicate the significant differences between the previous accounting methods according to Canadian GAAP and the IFRS that the Company now applies:

a) Exploration and evaluation assets

The items "Oil and gas properties" and "Deferred exploration costs" were grouped together under "Exploration and evaluation assets."

b) Shares issued under flow-through financing

According to accounting standards in effect before the changeover, all revenues from the issue of these flow-through shares were credited to the share capital. At the time of the forfeiture of tax deductions related to exploration expenses, taxable temporary differences were created and the deferred income tax was reported. Related expenses were processed as share issue expenses.

According to IFRS, the issue of flow-through shares is reported as a compound financial instrument. The liabilities component represents the obligation to transfer tax deductions to investors. The revenue from issuances under private flow-through financing arrangements is allocated between the flow-through shares issued and the liabilities using the residual method. The revenues are first charged against the shares according to the share price at the time of the issuance, and the residual amount is charged against the liabilities, which is reversed in the results as a deferred tax collection when eligible expenses are incurred.

There is no exemption for first-adopters under IFRS 1 regarding flow-through shares, and IFRS treatment is therefore applicable retroactively.

Effects of this measure:

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

c) Share-based payment transactions

According to accounting standards in effect before the changeover, the fair value of a share-based payment, for which the acquisition of rights is spread over time, is recorded according to the linear method over the duration of services required to ensure the acquisition. Moreover, the forfeiture of share-based payment transactions is recorded as it occurs.

According to IFRS 2, each section of a share-based payment transaction, whose acquisition is spread over time, is treated as a separate allocation with its own rights acquisition date and fair value. Each allocation is recorded according to the preceding one. Moreover, the Company must estimate the number of share-based payment transactions it expects to be forfeited, an estimate that is revised if later information reveals that the real number of share-based payment transactions is likely to differ from the estimated number.

The Company decided not to retroactively apply IFRS 2 (Share-based payments) to stock options granted before November 7, 2002, or to options granted after November 7, 2002, whose rights became acquired before the transition date.

Effects of this measure:

As at October 1, 2010, no effect was observed.

As at December 31, 2010, a reduction in stock-based compensation of $8,257 was posted for the period and for the fiscal year ended September 30, 2011.

d) Presentation differences

Certain presentation differences between the accounting standards in effect before the changeover and the IFRS have no impact on the results presented or on the total shareholders' equity, specifically with respect to contributed surplus - expired stock options.

Accordingly, the following charts show that certain items are described in the IFRS (renamed) compared to the previous accounting standards. These presentation differences have no impact on the overall results presented or on the total shareholders' equity.

e) Rate changes for calculation of deferred income tax

According to Canadian GAAP, an entity must have posted in the results any changes subsequently made to the taxation rates and fiscal laws regarding elements previously recorded in other elements of the comprehensive income or in the shareholders' equity.

The IFRS requires the reporting of certain elements directly in the shareholders' equity, specifically a change in the income tax rate or other fiscal regulation that affects a deferred income tax asset or a liability related to an item that was previously reported under shareholders' equity.

Effects of this measure:

As at October 1, 2010, an amount of $28,315 was transferred.

10.7 Risk factors

Risks inherent to oil and gas exploration activities

The Company's activities consist in acquiring and exploring oil and gas properties in the hopes of finding economically feasible deposits. The Company's properties are currently at the exploration stage and contain no known commercially viable deposits. As such, it is unlikely that the Company will realize any short- or medium-term profits. Any future profitability for the Company will depend on the discovery of an economically viable oil or gas deposit, and even if one were discovered, there is no guarantee that its operation would be profitable.

Environmental regulations and requirements

The Company's activities require obtaining permits from various government authorities, and are governed by laws and regulations regarding exploration, development, exploitation, production, exports, income tax, labour standards and occupational safety, as well as the environment and other issues. Nothing allows us to plan with certainty the incidences of these laws and regulations on the operations of the Company and also the impact of any modifications to those laws and regulations.

Supplemental costs and delays may stem from the need to comply with laws and regulations. If the Company could not obtain or renew the necessary permits or approvals, it could be forced to scale down or cease its exploration or development activities.

Capital needs

The exploration, development, processing and exploitation of Company properties will require considerable additional financing. The only sources of financing available to the Company are the issue of additional capital stock and loans. There is no guarantee that this financing would be available to the Company, that it would be available under favourable conditions, or that it would be sufficient to meet Company needs, all of which could have a negative impact on the Company's business and financial situation. The impossibility of obtaining sufficient funding could lead to a delay or even the indefinite postponement of exploration, development or production work on one or all Company properties, and even lead to the loss of its participation in one of the properties.

Price of resources

The market price of the Company's common shares, its financial results and its oil and gas exploration, development and exploitation activities have in the past and could eventually suffer significant negative repercussions due to falling oil and gas prices.

Uninsured risks

The Company's activities are subject to certain risks and dangers, including difficult environmental conditions, industrial accidents, labour conflicts, unexpected or unpredictable geological conditions, land or talus slides, rock slides, and natural phenomena such as adverse weather conditions, flooding and earthquakes. These events could cause injuries or death, environmental or other damage to Company property or production facilities, or property belonging to other companies, operating delays, financial losses and possible legal liability.

The Company's continued existence

The Company's future depends on its ability to finance its activities and develop its assets. Failure to obtain sufficient financing could mean that the Company may not be able to continue its activities, develop its assets and pay off its liabilities in the normal course of business in the foreseeable future.

10.8 Judgments, estimates and assumptions

When it prepares the financial statements, Management makes a certain number of judgments, estimates and assumptions about the accounting and evaluation of assets, liabilities, revenues and expenditures.

The real results may differ from the judgments, estimates and assumptions made by Management and are rarely identical to the estimated results. Information on the significant judgments, estimates and assumptions with the greatest impact on the accounting and evaluation of assets, liabilities, revenues and expenditures are presented below.

Depreciation of exploration and evaluation assets

Judgment is required to determine impairment loss or reversal indicators, as well as to establish the recoverable amount in the event a depreciation test is needed. If there is an indicator of an impairment loss or reversal of an asset or a cash-generating unit, the recoverable amount is estimated and the impairment loss or reversal is reported insofar as the accounting amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of an asset's fair value less costs to sell and its value in use.

For each property, Management determines that the facts and circumstances could indicate an impairment loss or reversal. The facts and circumstances that it considers include, but are not limited to the following:

(a) The period during which the entity has the right to explore a specific area has expired or will expire in the near future, and is not expected to be renewed;

(b) Significant exploration and evaluation expenses for oil resources in the specific area are neither planned or scheduled in the budget;

(c) Exploration and evaluation of oil resources in the specific area did not lead to the discovery of commercially viable volumes of oil resources and the entity decided to cease activities in the specific area;

(d) Sufficient data exist to indicate that, although development in the specific area is likely to continue, the accounting amount of the exploration and evaluation assets will probably not be entirely recovered following successful development or a sale. When an indicator of an impairment loss or reversal is determined to exist, Management must evaluate the recoverable amount of the asset or the cash-generating unit; to do so, it must make assumptions related to future events and circumstances.

These assumptions are based on the Company's exploration and evaluation program, which specifically considers if the results of exploration work justify additional investments, if the Company's interests in oil and gas rights have been confirmed, if the Company has the capacity to obtain the necessary financing to develop and produce resources in a profitable manner, and if the properties will be assigned at an amount higher than accounting amount. The real results may differ and lead to significant adjustments to the Company's assets over the next fiscal year.

No impairment loss or recovery was recorded for the periods in question.

Deferred tax

Judgment is required to evaluate the probability of a future taxable benefit. A deferred tax asset is recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the deferred unused tax credits and unused tax losses can be utilized.

Continuity of operations

Judgment is required to evaluate the Company's ability to implement its strategy by financing its future working capital needs. More information on the continuity of operations is presented in note 3.

Share-based payment transactions

To estimate the expenses related to share-based payment transactions and stock purchase warrants, we must select the appropriate valuation model and obtain the data required for the selected model. The Company has estimated the volatility of its own shares and the probable lifespan and exercise period of the options granted. The model used by the Company is the Black-Scholes model.

Provisions and contingent liabilities

Judgment is required to determine if a past event led to a liability that should be reported in the financial statements, or should be presented as a contingent liability. Quantifying these liabilities requires exercising judgment and making estimates. These judgments are based on several factors, such as the nature of the claim or conflict, legal proceedings and the potential amount payable, legal advice obtained, past experience and the probability of realizing a loss. Many of these factors create uncertainty with respect to the estimates.

Technical feasibility and commercial viability of exploration and evaluation assets

The decision regarding the technical feasibility and commercial viability of exploration and evaluation assets involves making a certain number of assumptions, such as the estimated reserves, forecast resource price, expected production volumes and discount rates, which are all subject to significant changes in the future. The Company has determined that no property has yet reached the technical feasibility and commercial viability stage.

10.9 Internal controls

Given that the Company is an emerging issuer, the officers do not have to make any certifications concerning the establishment and maintenance of control, or the communication of information and internal controls related to financial information, as defined in Regulation 52-109.

The issuer'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.

10.10 Other 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 website at **www.petroliagaz.com.**

b) Regulation 51-102 Section 5.2

Deferred exploration expenses for the fiscal year ended December 31, 2011, are as follows:

	Geology	Geophysics	Drilling	Analysis	Completion	General expenses	Fracturing	Options	Provision	Site maintenance	Total
	$	$	$	$	$	$	$	$	$	$	$
Anticosti	11,134	10,186	10,878	-	-	-	-	26,367	(37,500)	-	21,065
Gastonguay	-	-	-	-	-	-	-	62	-	-	62
Gaspésia Marcel-Tremblay Edgar	5,529	5,489	-	-	-	50	-	4,027	-	-	15,095
Gaspé	1,440	9,871	133	-	-	20,528	560	3,860	-	-	36,393
Bourque	8,705	1,854	1,781	6,930	-	1,645	-	2,079	-	-	22,993
Haldimand	111,832	55,211	23,164	1,260	-	8,770	729,448	40,477	-	33,116	1,003,277
Tar Point	4,710	-	-	-	-	728	247,636	11,710	-	4,099	268,883
Dalhousie	1,563	23	1,500	-	-	(290,714)	-	669	-	-	(286,958)
	144,913	**82,634**	**37,456**	**8,190**	**-**	**(258,993)**	**977,644**	**89,251**	**(37,500)**	**37,215**	**1,080,810**

Deferred exploration expenses for the fiscal year ended December 31, 2010, are as follows:

	Geology	Geophysics	Drilling	Analysis	Completion	General expenses	Evaluation of oil reservoir	Options	Provision	Site maintenance	Total
	$	$	$	$	$	$	$	$	$	$	$
Anticosti	11,724	220	18,042	40	-	6,405	-	11,309	150,000	-	197,741
Gastonguay	548	-	-	-	-	-	-	77	-	-	626
Gaspésia Marcel-Tremblay Edgar	74,550	210	-	-	-	740	-	160	-	-	75,660
Gaspé	10,629	16,081	1,992	20	3,654	18,393	-	5,334	25,177	-	81,280
Bourque	6,550	970	-	-	-	-	-	616	-	-	8,136
Haldimand	43,436	25,345	(12,798)	40	45,369	53,106	50,278	8,715	96,000	-	309,490
Tar Point	1,236	693	(1,585)	-	4,327	31	-	12,910	48,000	-	65,611
Dalhousie	2,372	4,675	-	40	-	1,120	-	75	-	-	8,282
	151,045	**48,194**	**5,651**	**140**	**53,350**	**79,795**	**50,278**	**39,196**	**319,177**	**-**	**746,826**

c) Regulation 51-102 Section 5.3

Information on shares issued and stock options as at February 23, 2012:

Common shares**:** 54,844,198 shares have been issued and are outstanding.

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

- 21,250 options exercisable at a price of $0.74 per share until May 21, 2012;
- 547,500 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;
- 125,000 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;
- 120,000 options exercisable at a price of $0.74 per share until May 21, 2014;
- 270,000 options exercisable at a price of $0.89 per share until February 25, 2015;
- 790,000 options exercisable at a price of $0.50 per share until December 8, 2015;
- 75,000 options exercisable at a price of $1.31 per share until February 25, 2016;
- 500,000 options exercisable at a price of $1.69 per share until May 18, 2016;
- 1,266,000 options exercisable at a price of $1.52 per share until December 4, 2016.

Management's responsibility for financial information

Management is responsible for Pétrolia's financial statements, which have been approved by the board of directors on recommendation of the audit committee. The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles (GAAP) and audited by the Company's auditors. The financial statements include certain amounts that are based on the use of estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

Rimouski, February 23, 2012

On behalf of the Board

(signed) *André Proulx*
André Proulx
President