PÉTROLIA

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MANAGEMENT REPORT 2013

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PRESIDENT’S MESSAGE TO SHAREHOLDERS

IN LESS THAN A DECADE, PÉTROLIA MANAGED TO CHANGE PERCEPTIONS OF THE HYDROCARBON POTENTIAL OF QUEBEC BASEMENT. QUEBEC CAN LEGITIMATELY ASPIRE TO INCREASING ITS ENERGY INDEPENDENCE AND FORESEE ENVIABLE ECONOMIC DEVELOPMENT PERSPECTIVES.

From the very beginning, Pétrolia has been driven by its conviction that eastern Quebec holds hydrocarbon potential. That is the vision that has led the Corporation every step of the way, in the hopes that Quebec would one day become an oil producer.

The Corporation's results to date confirm that potential. The Haldimand deposit was the first discovery of commercially exploitable oil in Quebec. On Anticosti, our results have indicated the presence of an initial 34 billion barrels of oil in the Macasty Formation. To these already compelling results, we can add the presence of over 1 Tcf (trillion cubic feet) of wet natural gas in the two bored wells of the Bourque project. In light of these facts, the hydrocarbon potential of eastern Quebec is evident and has raised enough interest to launch more extensive exploration programs.

The Corporation and its shareholders owe these results in large part to their employees, whose skill, energy, and motivation have pushed Pétrolia to the forefront of oil and gas exploration in Quebec. I am grateful to the entire team for its contribution and I wish to thank everyone for their great work. The quality of our human resources is undoubtedly our Corporation's greatest strength.

In less than a decade, Pétrolia has managed to change perceptions regarding the hydrocarbon potential to be found under Quebec soil. Though currently required to turn to imports for over half its energy needs and 100% of its oil needs, Quebec can legitimately aspire to increasing its energy independence and foresee enviable economic development perspectives.

Pétrolia continues to pursue its objective of becoming a major player in developing the formidable potential it has discovered. During the last fiscal year, Pétrolia's management has worked hard to create the tools and conditions that will allow us to face the challenge of becoming an oil producer and overcome the obstacles that may arise.

We are aware that there is little understanding of the oil industry in Quebec. Prejudices often far removed from 21st century realities persist. The industry is developing in Quebec at a time when, like in other places, we are seeking to reduce oil consumption. However, Quebecers are also aware that future changes in energy consumption will occur gradually, over a number of decades. Knowing this, and according to our surveys, most Quebecers are in favour of developing this high-tech industry and reaping the economic benefits it can bring. Quebec has the resources, expertise, and ability to manage that development in accordance with its values.

Quebecers are also aware that oil will play an important role in meeting the province's energy needs over the next decades, and that transitioning from importing 100% of this energy source to drawing on local production will deliver significant economic benefits. Achieving energy efficiency in no way precludes developing local oil production capacity. And sourcing more oil locally will create new opportunities in most other industries.

Still, the oil industry is sure to encounter obstacles and setbacks. In concrete terms for Pétrolia, that has already meant having to interrupt drilling on the Haldimand 4 wells, which was at a standstill throughout the last fiscal year.

The Corporation has dedicated years of efforts and resources to developing the Haldimand deposit with transparency and according to applicable legislation and the industry's highest standards. Drilling at Haldimand 4 will be directional, without hydraulic fracking. The products used will be chosen based on a toxicological study to ensure they are as harmless as possible. Site development at Haldimand 4 well exceeds standards, and the Corporation has undertaken an unprecedented hydrogeological study of the area—the first of its kind in the industry in Quebec.

The same approach guides us on Anticosti Island and in all our other projects. I remain convinced that this is the best approach, in the long term, to build our credibility and foster good local relations. Using scientific data and established facts, remaining open in our search for solutions and our interactions, and acting according to our commitments are the best ways to attain our objectives.

As a last resort, we may have to defend our rights in court. The decision in our favour by the Superior Court last February (appealed by the City of Gaspé) is only a partial solution. That's why, long before the courts will hear our argument, we have reopened the channels of communication with municipal authorities, continued to collaborate with the government, and pursued our relations with the public. We intend to continue these efforts to maintain open and transparent dialogue with the government and the public so we can resume our work in a positive social climate. Our objective remains the same: to make the Haldimand deposit Quebec's first commercially exploited oil deposit.

Developing Quebec's potential will require considerable financial resources. The recent signing of an agreement between the Government of Quebec, Établissements Maurel & Prom, and Corridor Resources Inc. is the concrete result of work done by Pétrolia management during the last fiscal year. This strategic alliance will accelerate the Anticosti project and ensure that our Corporation continues to play a key role.

With this agreement, the new partnership (in which Pétrolia will act as an operator and hold a 21.7% interest) will carry out exploration on Anticosti to demonstrate what commercially viable resources it holds. The first $100 million of these efforts will be financed by the Government of Quebec and Maurel & Prom. The agreement establishes that Quebecers will hold a controlling interest in the project. These points are in line with our Corporation's objectives and fit with our vision for developing Quebec's oil industry. They lay the foundation of social acceptance for the project locally, regionally, and across Quebec.

This same spirit was behind last July's new partnership agreement with Maurel & Prom subsidiary Saint-Aubin Énergie. Through this agreement, we acquired an interest in an area over 1,800 km2 in size in the Gaspé and Lower St. Lawrence regions.

The coming year looks very promising in that regard. The biggest exploration program in the history of Anticosti Island, the relaunch of the Haldimand project, the continuing search for a partner for the Bourque project, and the establishment of an exploration program on the property acquired in 2013 are just a few of the activities planned for 2014. We could be on the verge of the first-ever production in the history of Pétrolia.

Last September, the board of directors announced a new succession plan. I was elected chairman of the board and appointed interim president and CEO with the specific mandate of implementing the announced agreements, advancing our main projects, and identifying someone to lead the Corporation in this venture. Mr. Alexandre Gagnon, appointed executive vice-president, and the other members of the board will aid me in this task. In addition, the appointment of Mr. Gildas Collin to the position of Chief Operating Officer reflects the board of directors' desire to add to the Corporation's technical expertise in anticipation of the expected developments.

The transition from exploration to production entails major organizational challenges, particularly increasing our workforce to meet our obligations and integrating the new workers efficiently into the organization. The fiscal year ended December 31, 2013, was a time for introducing the tools our Corporation will use to become the producer it has wanted to be from the start.

In closing, I wish to thank Mr. André Proulx for his incredible contribution to Pétrolia's growth from the start. His vision and energy over his many years at the Corporation's helm have helped make Pétrolia what it is today.

VISION

Projects are developed according to a rigorous process that is mindful of communities and the environment.

- Pétrolia is an oil exploration company founded and based in Quebec. As the province's leading oil explorer, Pétrolia plays a key role in Quebec hydrocarbon and oil exploration.

  - Since its founding in 2003, Pétrolia has focused on the search for oil in eastern Québec. Its efforts in Gaspé and on Anticosti Island have been rewarded with the discovery of major oil potential.
  - Exploitation of this natural resource would represent a huge opportunity for Quebec in terms of wealth creation and strategic economic development.

- To accelerate these projects, the Corporation is seeking strategic alliances with partners whose technical and financial contribution can help it move forward in accordance with its values.

  - The Corporation is in charge of decision-making and carries out the actual work. The agreements with Québénergie and Saint-Aubin Énergie (a subsidiary of Maurel & Prom) and the agreement on Anticosti (Ressources Québec – Corridor Resources – Établissements Maurel & Prom – Pétrolia) designate Pétrolia as project operator.
  - Pétrolia ensures that its partnership agreements provide it with greater technical expertise. The Corporation also calls on the expertise of specialized firms. It continually seeks to add to its expertise and knowledge, particularly in terms of safety and respect for the environment.

- Projects are developed according to a rigorous process that is mindful of communities and the environment. Here are some examples:

  - Pétrolia uses a meticulous science-based process in all its ventures.
  - Pétrolia has the most experienced technical team in Quebec for planning and carrying out operations and calls upon recognized external experts as needed.
  - The Corporation applies the industry's best practices in terms of technology, the environment, and local relations.
  - In communities where it operates, Pétrolia seeks to initiate a constructive dialogue based on scientific rigor, education, and transparency.
  - Pétrolia ensures that local communities reap as many economic benefits as possible and uses local expertise whenever available.
  - The Corporation trains local workers and transfers technology to local companies to maximize economic spinoffs.
  - The Corporation minimizes the environmental impact of its work and applies standards that surpass regulatory requirements.

- Pétrolia relies on research to improve its practices and regularly works with recognized institutions (e.g., INRS, Laval University, University of Quebec at Chicoutimi).

➢ The energy resources beneath Quebec soil offer the economic development opportunities Quebec needs. Pétrolia is determined to ensure that this collective resource will be developed with respect for and in the interest of its shareholders and all Quebecers. Pétrolia is a Quebec-based company that respects Quebec's communities and values, particularly with regard to environmental quality. More than just a slogan, "Oil from here, by the people here, for here." is central to and perfectly describes the Corporation's vision. Pétrolia can play a key role in developing a responsible oil industry in Quebec. Its Quebec identity combined with its force and determination are the key to success for Pétrolia, its shareholders, and all Quebecers who believe in the importance of creating an oil industry in Quebec.

OIL FROM HERE,

BY THE PEOPLE HERE,

FOR HERE.

REVIEW

OF THE FISCAL YEAR

We are poised to play a key role in developing the vast oil production potential that lies under foot in eastern Quebec.

During the fiscal year ended December 31, 2013, Pétrolia confirmed the potential of its land holdings in eastern Quebec. We consolidated our positions on the Gaspé Peninsula and developed tools to accelerate our projects and manage our growth in the coming years. We also pursued efforts to secure public support for our projects and thereby facilitate creation of an oil industry in Quebec.

The hydrocarbon potential of explored territories

During the early months of the year, Pétrolia drilled bored wells for the Bourque project and stratigraphic coreholes on Anticosti Island. The results revealed the hydrocarbon potential of areas where the Corporation is active.

With more than 1 Tcf (trillion cubic feet) of wet natural gas at or near Bourque 1 and Bourque 2, the Corporation undertook to :

- determine the nature of the work needed to develop the project;
- seek out a development partner;
- identify potential buyers of future hydrocarbon production;
- review all data to locate features similar to the Bourque project's on lands for which it holds permits.

The oil resources identified on Anticosti Island (nearly 34 billion barrels of oil initially) were met with great interest in Quebec. Collecting new geological data and drilling oil wells in the Macasty Formation will be crucial to determining whether that potential can be exploited.

The economic development that will stem from any future oil production raises legitimate questions, particularly with regard to environmental impacts. Our approach to environmental protection has therefore been prudent and responsible at Pétrolia:

- We launched a hydrogeological study in fall 2011 and have built 10 observation wells.
- We are continuing our collaboration with the Anticosti Chair at Laval University by supporting research to identify the impact of oil operations on the behavior of white-tailed deer.

Drilling suspended at Haldimand 4

Pétrolia suspended drilling at the Haldimand 4 well after the town of Gaspé adopted a bylaw to protect drinking water. The well was intended to demonstrate that the deposit holds economic potential and to determine its possible scope. Haldimand is our most advanced project. Drilling at Haldimand 4, in addition to enabling us to begin production at a deposit with recoverable resources estimated at 7.7 million barrels of oil, will be an opportunity to test various hypotheses of key importance to how the 13 other permits in the Gaspé bloc should be explored. Despite making every effort to find a solution to the dispute with the municipality, we resigned ourselves to arguing our case before the Superior Court. In a decision released in February 2014, the court ruled in favor of the Corporation and struck down the town bylaw. The town has appealed the decision.

Consolidation of our positions on the Gaspé Peninsula

In keeping with our strategic development strategy, Pétrolia and Saint-Aubin Énergie S.A.S. (a subsidiary of Maurel & Prom) acquired 13 new permits in the Gaspé and Lower St.-Lawrence regions from Gastem. Divided into 2 blocs, these permits total 1,800 km2. In fall 2013, a corehole 1,800 meters deep was drilled. The core samples are currently being analyzed.

Managing growth

Several changes were made to our executive team at Pétrolia to meet our growing human resource needs. A succession plan was drawn up, and a chief of operations was recruited to coordinate upcoming work. This is all part of our desire to adapt to the needs that will arise as our projects unfold.

Accelerating development on Anticosti Island

Management devoted a good part of the year to negotiating an agreement to accelerate the development of the oil potential in the bedrock of Anticosti Island. The negotiations concluded in April 2014. This partnership agreement involved Ressources Québec (a subsidiary of Investissement Québec), Établissements Maurel & Prom (a subsidiary of Maurel & Prom), Corridor Resources Inc., and Pétrolia. Under its terms, Ressources Québec holds a 35% interest in each of the 38 permits (over 6,000 km2), while Pétrolia and the two other partners each hold 21.7%. We at Pétrolia are thrilled with this agreement as it helps achieve a goal we have steadfastly pursued: accelerate the development of Anticosti Island's bedrock oil potential.

Continuing community relations efforts

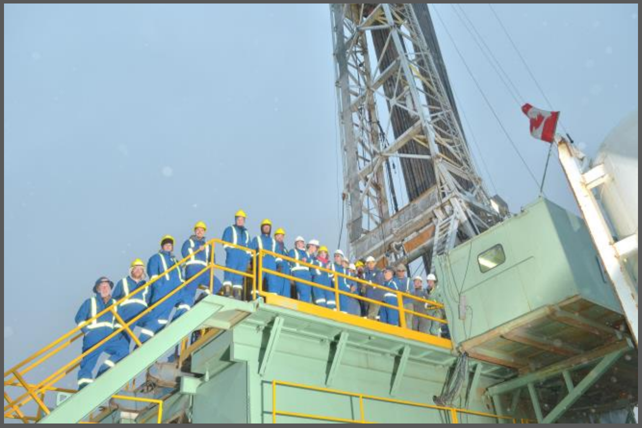
Pétrolia continued to stress relations with the community and government authorities throughout the year. Highlights include:

- Hiring a community relations officer tasked with integrating Pétrolia's work into island life. The person hired has been an island resident for years.
- Opening an office to provide a direct contact with the public and manage operational logistics.
- Revealing all details last September of the 2008 agreement between Hydro-Québec and Pétrolia by which we acquired interests on Anticosti Island. This uncommon move is in keeping with the importance we place on transparency.
- The upcoming release by *Ministère du Développement durable, de l'Environnement, de la Faune et des Parcs (MDDEFP)* of the final report on the hydrogeological study carried out on the Haldimand Peninsula. This report, which was expected around March 31, 2014, will address the concerns expressed in the region regarding the impact of drilling on the water table.

- The tabling of a memorandum on the draft regulation by MDDEFP on the sampling and protection of drinking water. Once passed, this regulation will establish minimum distances the oil industry must comply with regarding drinking water intakes. We support the ministry’s initiative because it will standardize regulation across Quebec and reassure the public that drinking water is protected.

At the close of the fiscal year ended December 31, Pétrolia remains the uncontested leader of oil and gas exploration in Quebec. The results of our work, the partnership agreements we have signed, and the administrative changes we have announced point to the Corporation’s will and determination to see an oil industry emerge in Quebec. We are poised to play a key role in developing the vast oil production potential that lies under foot in eastern Quebec.

A RESPONSIBLE COMPANY



MANAGEMENT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2013

- This management report covers the period from October 1, 2012 to December 31, 2013. This 15-month period is due to a change in the Company's fiscal year, which is henceforth the same as the calendar year.
- This annual management report was approved by the Board of Directors on March 13, 2014.
- It presents the view of Management on current Company activities and is accompanied by the financial results as at December 31, 2013. It may also cite significant events that occurred after December 31, 2013, and provides an overview of the activities planned for the months ahead.
- The reporting currency is the Canadian dollar (CAD) and all amounts presented in this report are in Canadian dollars.

1. DATE

- The effective date of this management report for the year ended December 31, 2013 is March 13, 2014.

2. HIGHLIGHTS

- A letter of intent was signed between Pétrolia, Ressources Québec (a subsidiary of Investissement Québec), Établissement Maurel & Prom and Corridor Resources Inc. for a $100 million exploration program on Anticosti Island (press release dated February 13, 2014)
- A partnership agreement was signed between Pétrolia and Saint-Aubin Énergie S.A.S. (Maurel & Prom and Maurel & Prom International) to acquire 13 exploration licences in the Gaspé and Bas-Saint-Laurent regions (press release dated July 19, 2013)
- Pétrolia announced implementation of its succession plan (press release dated September 17, 2013)
- Pétrolia completed three financings totalling $3.55 million
- Drilling of Haldimand 4 was suspended following the adoption of a bylaw by the City of Gaspé (press release dated January 24, 2013) and a favourable ruling was obtained from the Superior Court in the case brought against the City of Gaspé by Pétrolia (press release dated February 11, 2014). On March 6, 2014, the City of Gaspé decided to appeal the decision of the Superior Court.
- An independent evaluation by Sproule Associates estimated at 1 Tcf (one trillion cubic feet) the volume initially-in-place of wet natural gas in four prospects within the Bourque project (press release dated April 10, 2013)

- Core samples taken from Anticosti Island in 2012 yielded positive results, confirming those used in the independent resource estimate carried out in 2011 which established the best estimate of the Total Petroleum Initially-In-Place is 30.9 billions barrels of oil for the Pétrolia land interest holdings and the results from the Utica Formation in Ohio (press release dated January 14, 2013)

- The Côte-Nord and Anticosti Island communities came out in favour of oil exploration on Anticosti Island (press release dated July 30, 2013).

3. INCORPORATION AND MISSION

- Incorporated under Part 1A of the Quebec Companies Act and governed by the provisions of the Quebec Business Corporations Act, Pétrolia 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 contain economically feasible reserves.

- The Company's primary activities are the exploration and development of its oil and gas properties. In order to achieve its objectives, the Company has to form partnerships with other industry stakeholders.

4. FORWARD-LOOKING STATEMENTS

- Some of the statements made in this report may constitute 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. Accordingly, a decision to invest in Pétrolia's shares should at no time be based on these forward-looking statements. Pétrolia disclaims any intention or obligation to update these forward-looking statements.

5. OBJECTIVES AND STRATEGIC PLANS

- The Company's objective is to discover marketable oil resources and put them into production as quickly as possible, with the goal of becoming profitable. In the pursuit of this objective, the Company never loses sight of the importance of personal safety, environmental protection and community relations.

- Pétrolia achieves this objective by holding rights over promising licences and signing agreements with partners with the necessary technical and financial expertise. The Company drills wells according to scientific and technical knowledge, relying on best industry practices for its drilling activities. Protecting the health and safety of its workers and the local population are a priority for the Company when planning and executing exploration work. It also pays special attention to community relations and the local socio-economic context in which it operates, as well as to protecting the environment.

- Pétrolia prides itself on being a responsible Quebec oil and gas company whose goal is to produce oil to meet a significant portion of Quebec's energy needs.

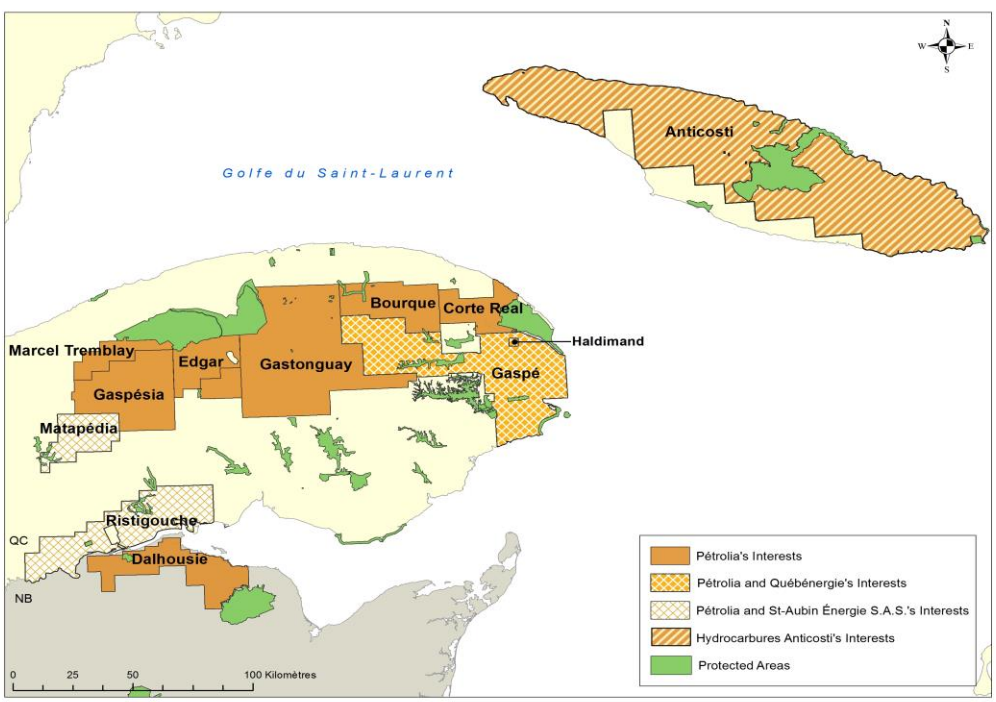
6. LICENCES AND PARTNERSHIPS

- Pétrolia holds licences for and interests in an area of over 16,000 square kilometres, i.e. close to 22% of the Quebec territory currently under lease. Located in Eastern Quebec and Northern New Brunswick, these areas are known for their oil potential. The areas in which Pétrolia holds interests may also contain natural gas and condensates.

- At December 31, 2013, the Company had three partnerships agreements covering parts of its holdings:

  - On the Gaspé block, Pétrolia and Québénergie hold a 50/50 share in each of the 13 licences, which cover approximately 2,500 square kilometres.
  - On the Anticosti block, Pétrolia holds a 25% to 50% share with Corridor Resources in 35 exploration licences. According to the terms of the letter of intent and subject to the closing of the agreement, the interests will be in 38 exploration licences that will be shared between Ressources Québec (35%), Pétrolia (21.67%), Établissements Maurel & Prom (21.67%) and Corridor Resources Inc. (21.67%) (press release dated February 13, 2014).
  - On the Baie-des-Chaleurs-Matapédia and Ristigouche blocks, Pétrolia and Saint-Aubin Énergie S.A.S. (a subsidiary of Maurel & Prom and Maurel & Prom International) hold a 50/50 share in 13 licences that cover over 1,800 square kilometres.
  - Pétrolia is the sole owner of the remaining licence blocks.

- The following map shows the location of Pétrolia's interests but excludes some of the areas contemplated by the letter of intent of February 13, 2014.



7. PROJECTS, WORK PROGRAMS AND OUTLOOK

7.1 Haldimand project (Gaspé block)

- Discovered in 2006, Haldimand is a conventional deposit located in the York River Formation, which consists of naturally fractured sandstone. An independent analysis by Sproule Associates in 2010 placed the best estimate of the Oil-Initially-In-Place (P50) at 69.7 million barrels and the recoverable (contingent) portion at 7.7 million barrels.

- Pétrolia and Québénergie own a 50/50 share in the 13 licences for the Gaspé block, which includes the Haldimand deposit. Under this agreement, Pétrolia acts as operator during the exploration phase.

- At the end of fall 2012, Pétrolia began drilling a third well, Haldimand 4. This is a directional well, whose horizontal portion should reach 2,000 metres. The horizontal drilling will be done at an optimal angle so as to cut across as many natural rock fractures as possible. The purpose of this exploratory well is also to determine how far the reservoir extends to the northwest in order to increase the resources contained in the deposit.

- Work was interrupted after the City of Gaspé adopted a bylaw on December 22, 2012 that imposed restrictions on drilling activities. As a result, no work was performed in 2013. The rig has been idle on the site since the work stopped.

- Following the Quebec government's announcement of its intention to carry out a hydrogeological study of the Haldimand area, Pétrolia put an end to its own study and agreed to transfer to the *Ministère du Développement durable, de l'Environnement, de la Faune et des Parcs* the observation wells it had drilled in 2012 on the Haldimand Peninsula. The Company also provided the Ministère with access to all the data it had collected for the hydrogeological study, undertaken in 2011.

- In early 2014, the Quebec Superior Court heard the interlocutory motion filed by Pétrolia in May 2013 to invalidate the bylaw adopted by the City of Gaspé. In a decision handed down on February 10, 2014, the Superior Court found in favour of Pétrolia and declared the municipal bylaw *ultra vires*. On March 6, 2014, the City of Gaspé decided to appeal the decision of the Superior Court.

- The Company has stated its intention to resume drilling Haldimand 4. However, it is prepared to wait for the results of the hydrogeological study taken over by the Quebec government, expected on March 31, before resuming drilling.

- If the result is positive for Haldimand 4, the partners will begin the process of obtaining an operating license so that the reservoir can be put into production. This well will also provide invaluable information that will be used to develop an exploration program for the entire Gaspé block.

7.2 Anticosti Project

- Pétrolia holds interests in 35 exploration licences covering an area of 5,698 square kilometres on Anticosti Island. Once the transaction closes, Pétrolia will transfer these licences to a limited partnership that will own 38 licences, in which it will retain a 21.7 % interest.

- The main goal of the Anticosti project is to develop the hydrocarbon source rock in the Macasty Formation and to determine whether this type of deposit can be developed economically. Based on information available on June 1, 2011, Sproule Associates placed its best estimate (P50) of the undiscovered Total Petroleum-Initially-In-Place volume for the 35 licences in which Pétrolia holds an interest at nearly 31 billion barrels. The limited partnership will have a total of 33.9 billion barrels initially in place.

- During the year ended December 31, 2013, Pétrolia unveiled the results of the three coreholes taken on Anticosti Island in 2012. These results are better than those used in 2011 to estimate the resources in place. They are also comparable and even better than those obtained from the Utica Formation in Ohio, recognized for its production of hydrocarbon source rock, which is similar to the Macasty Formation (same characteristics and geological age). The results show that the holdings in which Pétrolia holds interests lie within the hydrocarbon window, that the average value for total organic carbon (TOC) is close to 4.0% and that the hydrocarbon concentration in the rock (S_1) varies from 2.21 mg/g to 4.48 mg/g. In addition, petrophysical analyses confirm the presence of favourable porosities and permeabilities for the production of hydrocarbons for this type of formation. Lastly, mineralogical analyses revealed a small proportion of clay minerals, which favours rock fracturing and constitutes another positive criterion in terms of the production potential for this type of reservoir.

- On February 13, 2014, the Government of Quebec (via Ressources Québec), Établissements Maurel & Prom, Corridor Resources Inc. and Pétrolia announced that they had signed a letter of intent to form a strategic partnership on Anticosti Island. The transaction is scheduled to close by March 31, 2014. The aim of the agreement is to carry out up to $100 million in exploration work spread out over two years, beginning in summer 2014. The work will be financed by Ressources Québec (a subsidiary of Investissement Québec) and by Établissements Maurel & Prom (France's second-biggest oil company). Subject to certain conditions, the interests of the parties in the limited partnership are as follows: 35% for Ressources Québec, 21.7% for Pétrolia, 21.7% for Établissements Maurel & Prom and 21.7% for Corridor Resources Inc. The partners entrusted the role of operator to Pétrolia. The partnership will be overseen by a board of directors composed of five individuals: one representative from each of the partners and one independent director named by the partners.

- This agreement is the outcome of efforts made throughout the last year to find a partnership structure that will enable the Company to carry out a major exploration program aimed at developing the hydrocarbon source rock in the Macasty Formation, to align itself with well-known technical expertise and to play a leading role in the work.

- In the first phase, the partners have agreed to drill 15 to 18 stratigraphic surveys, followed by three exploration wells, with fracking, at a cost of $55 to $60 million. In addition to providing information about the characteristics of the Macasty Formation, the stratigraphic surveys (2014) will assist in choosing the location for the three horizontal wells, with fracking, that are expected to be drilled in 2015. Should the exploration yield positive results and the joint venture's board of directors render a favourable decision, a second phase of drilling involving fracking will follow in 2016. The estimated cost for this second phase is $40 to $45 million.

- Pétrolia will carry out these operations in a way that promotes social acceptance of its projects. The agreement announced on February 13, 2014 does precisely that by allowing Quebecers to participate in and benefit from the economic returns of this project.

- Pétrolia's desire to be transparent and promote social acceptance of the project is also the reason the Company disclosed the terms of the 2008 agreement with Hydro-Québec.

- Pétrolia has always paid special attention to community relations. The hiring of a local representative and the opening of a permanent office in Port-Menier is in keeping with the Company's desire to keep the lines of communication open. The Company was pleased to see the municipality and region come out in support of oil exploration on Anticosti Island.

7.3 Bourque Project

- The Bourque project is located in a non-urbanized area, about 30 kilometres from the town of Murdochville.

- Drilling the Bourque 1 and Bourque 2 wells in 2012, wet natural gas (contains up to 20% natural gas liquids and condensates) was detected and condensate samples were taken from the Forillon Formation. The results obtained increases the interest in Pétrolia's other licences in the Gaspé, where similar geological conditions exist.

- The drilling revealed four prospects in the Forillon Formation for which Sproule Associates provided an estimate of the resources initially in place. Based on information available on March 31, 2013, Sproule estimated the undiscovered gas volume initially in place at over 1 Tcf (one trillion cubic feet).

- During the second quarter, Pétrolia developed a work program to identify the characteristics of the resources in place and to determine the potentially recoverable volumes. Pétrolia is currently studying the best way to deploy this exploration program and to this end is searching for a partner. The Company is also trying to find markets interested in this resource. Under these circumstances, it was deemed advisable for Pétrolia to defer the work.

7.4 Other properties

Matapédia

- In July 2013, Pétrolia and Saint-Aubin Énergie S.A.S. acquired from Gastem two blocks totalling 13 licences in the Baie-des-Chaleurs and Matapédia sectors. These licences cover an area of over 1,800 square kilometres. The two companies hold a 50/50 stake in the licences.

- In fall 2013, the partners drilled a stratigraphic survey to evaluate the potential of a known geological structure in the Casault Lake sector in the regional county municipality of Matapédia. The drilling reached a depth of 1,416 metres and confirmed the presence of gas in Silurian sandstone. A petrophysical analysis of the cores taken from the sandstone will help determine the characteristics of the structure. The two companies have pooled their expertise to put together an exploration program for these areas.

Other properties

- The Company is reviewing the data on its other properties in the Gaspé in order to identify areas with similar characteristics to those found in the Bourque project.

- Regarding Pétrolia's licences in New Brunswick, no work has been carried out on the properties. Pétrolia has little interest in investing in these properties at this time.

8. COMPANY'S EXPERTISE

- Pétrolia has a dynamic, motivated team, with highly skilled technical personnel, making it an industry leader in Quebec.

- On September 17, 2013, Pétrolia announced the implementation of a succession plan. Under this plan, Myron Tétreault was named interim President and CEO, Alexandre Gagnon was appointed Executive Vice-President, and Gildas Collin joined the team as Chief Operating Officer. The other members of the management team were also appointed.

- The anticipated development of the project in which Pétrolia is involved will require it to prepare the organization for the challenges of these new activities, which will require it to add additional expertise to its team. In light of this, the Company has initiated a recruitment process.

- As well, although its exploration programs adhere to best industry practices, the Company decided to review and update its health, safety and environmental plan to ensure it respects the most stringent standards.

A DYNAMIC AND MOTIVATED TEAM

MANAGEMENT ANALYSIS

OF FINANCIAL INFORMATION

OPERATING RESULTS AND CASH POSITION

Income for the 15-month period ended December 31, 2013, consisted of interest income from short-term investments of $104,985, compared with $236,680 for the 12-month period ended September 30, 2012, project management income of $67,374, compared with $22,340, and rental income of $15,048, compared with $12,156. Revenues from oil reservoir evaluations stood at $49,602, against $29,453 for the previous year, and are recorded as a reduction in exploration expenses.

The decrease in interest income stems from a decrease in cash balances due to major exploration work, including drilling of the Bourque 1 and Bourque 2 wells.

As at December 31, 2013, the Company had cash and cash equivalents of $4,987,641 including $904,737 held for exploration and working capital of $5,821,736.

For fiscal year 2013, the Company recorded a loss of $5,525,409, compared to a loss of $3,019,033 for the previous year.

Management does not believe it will have sufficient cash to meet its obligations and projected expenses until December 31, 2014. Any shortfall may be met in a number of ways in the future, including but not limited to the issuance of new debt or equity instruments, additional cost-cutting measures and/or the introduction of new partners.

ANALYSIS OF OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses rose $2,830,000, mainly due to the length of the 2013 fiscal year, which consisted of 15 months compared to 12 months in 2012, and an increase in exploration activities and costs associated with social acceptance of its projects.

The main differences in the operating and administrative expenses are as follows:

- Share-based payments: 3,670,000 options were granted in 2013 with an established value of $1,986,025, compared to 1,341,000 options in 2012 with a value of $639,692.
- Salaries and benefits: Operations-related payroll increased slightly. Administrative personnel were hired to meet the needs of the community and government authorities. Severance pay in the amount of $333,333 was also recorded.
- Depreciation of property, plant and equipment: The increase in the depreciation expense is mainly due to the depreciation of three reservoirs.

SELECTED ANNUAL INFORMATION

	2013 $ (12 months)	2012 $ (12 months)
Income (including financial income)	187,407	271,176
Profit or loss	(5,525,409)	(3,019,033)
Basic earnings per share	(0.081)	(0.051)
Diluted earnings per share	(0.081)	(0.051)
Total assets	53,079,372	52,400,180
Dividend per share	N/A	N/A

SUMMARY OF QUARTELY RESULTS

The information for the summary of quarterly results is based on International Financial Reporting Standards (IFRS).

	2013				2012
	December $	September $	June $	March $	December $
Income (including financial income)	50,030	6,241	24,888	27,759	78,489
Net earnings (net loss)	(2,870,182)	(1,205,541)	(500,545)	(538,863)	(1,150,642)
Net earnings (net loss) per share					
Basic	(0.042)	(0.014)	(0.007)	(0.008)	(0.022)
Diluted	(0.042)	(0.014)	(0.007)	(0.008)	(0.022)

	2012			2011
	September $	June $	March $	December $
Income (including financial income)	93,806	50,430	48,451	78,489
Net earnings (net loss)	(494,129)	(675,032)	(699,230)	(1,150,642)
Net earnings (net loss) per share				
Basic	(0.010)	(0.012)	(0.013)	(0.022)
Diluted	(0.010)	(0.012)	(0.013)	(0.022)

Income essentially consists of interest earned, rental income and project revenue for each quarter. Operating and administrative expenses were fairly stable from quarter to quarter. The main changes in quarterly losses or earnings are explained as follows:

2011 - December	Recognition of share-based payment of $558,992.
2012 - February	Recognition of share-based payment of $80,700.
2012 - December	Recognition of share-based payment of $913,906.
2013 - March	Recognition of share-based payment of $128,700.
2013 - August	Recognition of share-based payment of $52,265.
2013 - September	Recognition of share-based payment of $280,000.
2013 - December	Recognition of share-based payment of $485,586.

FIFTH QUARTER

The fifth quarter closed with a loss of $2,139,356 ($0.042 per share). Income for the quarter stood at $32,516.

RELATED PARTY TRANSACTIONS

The Company's related parties include other related parties and key management personnel, as described below.

Unless otherwise indicated, none of the transactions involve special terms or conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

Transactions with key management personnel

	For the year ended	
	December 31, 2013 (15 months) $	**September 30, 2012 (12 months) $**
Short-term employee benefits:		
Salaries and benefits	1,053,907	685,882
Termination benefit	333,333	-
Attendance fees	134,716	126,817
Total short-term benefits	1,521,956	812,699
Fees	112,500	-
Share-based payments	1,656,356	473,206
Total remuneration	3,290,812	1,285,905

Key management remuneration includes the following expenses: During the year ended December 31, 2013, key management exercised 460,000 options (547,500 – 2012) granted under the share-based compensation plan. As well, loans totalling $120,000 (2012 – $0) were granted to two officers under the loan program for the exercise of share options. These loans bear interest at the Bank of Canada overnight rate. The entire loan will be offset by the termination benefit. The net benefit presented in liabilities is $213,333.

Related parties

The Company entered into transactions:	For the year ended	
	December 31, 2013	September 30, 2012
With two companies whose main officer (holding a minority interest) also serves on Pétrolia's Board:	$	$
Statement of financial position:		
Exploration and evaluation assets	17,142	5,300
Statement of comprehensive income:		
Other expenses	11,514	9,110
With a director acting as a consultant for the Company:		
Statement of financial position:		
Exploration and evaluation assets	-	2,063
With a company in which a director is a majority shareholder:		
Statement of comprehensive income:		
Other expenses	10,000	-
With a company in which a director is a minority shareholder:		
Statement of financial position:		
Exploration and evaluation assets	-	9,500

With a close relative of a member of management, who provided services to the Company:

Statement of financial position:		
Property, plant and equipment	-	10,685
Statement of comprehensive income:		
Office maintenance	1,814	11,605

At December 31, 2013, an amount of $11,959 (September 30, 2012 – $0) is owing from a company whose main officer holds a minority interest in and also serves on Pétrolia's Board.

These transactions took place in the normal course of business and were measured at their exchange value, which is the consideration established and accepted by related parties.

COMMITMENTS

Under the terms of exploration licences granted by the Ministère des Ressources naturelles et de la Faune du Québec, the Company has committed to pay fees in the amount of $1,114,623 by 2016. The minimum payments due during the upcoming years are as follows:

2014	**2015**	**2016**
$140,283	$487,170	$487,170

In addition, the Company must perform work on its properties in Quebec on a yearly basis, for which the minimum costs vary with the age of the licences; the cost is $0.50 per hectare for the first year of the licence and increases annually by $0.50, ultimately reaching $2.50 per hectare as of the fifth year. Based on the work performed at December 31, 2013, and excluding work that will be performed by 2017 (licence renewal date), the minimum work requirements are $667,041 in 2015, $918,396 in 2016 and $1,969,139 in 2017.

The adoption of Bill 18 in Quebec suspends some of these statutory work obligations for up to three years while at the same time extending the validity of all the licences for the same period. Pétrolia may, however, still continue its activities despite the suspended obligation.

The Company has signed leases with six companies for the rental of offices and a house until 2016. The balance of the commitments under these leases, excluding joint charges, is $699,295.

The minimum payments due during the upcoming years are as follows:

2014	**2015**	**2016**
$307,444	$276,600	$115,251

The Company has undertaken to support the renewal of the NSERC-Anticosti Forest Products Industrial Research Chair by contributing $200,000 over a five-year period beginning in 2012. A portion of these costs could potentially be assumed by a partner.

The minimum payments due during the upcoming years are as follows:

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

FINANCIAL INSTRUMENT DISCLOSURE

Risk management policy

The Company's financial assets and liabilities expose it to various risks. The following analysis provides a measurement of the risks as at December 31, 2013.

Credit risk

Financial instruments that potentially subject the Company to credit risk consist primarily of cash and cash equivalents, receivables and investments. The Company's cash and cash equivalents are held with or are issued by first-class financial institutions. The majority of receivables are amounts owed by governments and partners. Therefore, Management considers the risk of non-performance on these instruments to be minimal.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due or do so only at excessive cost. The Company finances its growth by issuing shares, selling interests in some of its oil assets and by obtaining short-term loans. One of Management's main financial objectives is to maintain an optimal level of liquidity by actively managing its exploration activities. All of the Company's financial liabilities have a maturity of less than one year.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market conditions. There are three types of market risk: interest rate risk, currency risk, and other price risks. The Company is exposed to interest rate risk.

Interest rate risk

The Company is exposed to interest rate risk on its fixed- and variable-rate financial instruments. Fixed-rate financial instruments expose the Company to fair value risk while variable-rate instruments expose it to cash flow risk.

A 1% change in the basic rate would have little impact on the fair value of the Company's investments due to their nature and would increase or decrease the net financial debt by $21,922.

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 fund: Given its short-term maturity, the fair value corresponds to its cost.

As regards the loan, the carrying value approximates the fair value due to the variable interest rate on the debt.

Fair value hierarchy

Financial instruments recognized at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements.

The three levels of the fair value hierarchy are:

Level 1– Quoted prices (unadjusted) in active markets for identical assets or liabilities: cash is found at this level.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices): cash equivalents, investments, and loans and borrowings are found at this level.

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The process followed for the determination of fair value requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

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

Judgments, estimates and assumptions

For a complete description of the judgments, estimates and assumptions made by Management in the preparation of its annual financial statements, see Note 4 of the Financial Statements for the year ended December 31, 2013.

Future changes in accounting policies

For a complete description of future changes in accounting policies, see Note 2 of the Financial Statements for the year ended December 31, 2013.

Capital management

For a complete description of the Company's capital management policy, see Note 18 of the Financial Statements for the year ended December 31, 2013.

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.petrolia-inc.com**.

b) Regulation 51-102 Section 5.2

Exploration expenses for the year ended December 31, 2013 are as follows:

	Geology	Geophysics	Completion and Drilling	Analysis	Fracturing	General expenses	Options	Provision	Site maintenance	Total
	$	$	$	$	$	$	$	$	$	$
Anticosti	257,553	42,080	1,215,316	105,241		169,560	56,690		220	1,846,660
Gastonguay	837					48	65			950
Gaspésia Marcel-Tremblay Edgar	5,689	5,840		1,400		4,155	5,096			22,180
Gaspé	62,919	10,960	751	15,630		120,445	6,598		110	217,413
Bourque	57,358	13,256	10,009,007	8,460	400	33,378	94,882	291,612		10,508,353
Haldimand	288,152	1,880	2,309,133	950	49,883	34,626	80,098		99,886	2,864,608
Tar Point	38		(104,227)			(1,072)	14,358		220	(90,683)
Dalhousie	620					73	876			1,569
Matapédia	38	160	1,067,913			53,546	42,345			1,164,001
	673,203	**74,176**	**14,497,893**	**131,681**	**50,283**	**414,759**	**301,008**	**291,612**	**100,436**	**16,535,051**

Exploration expenses for the period ended September 30, 2012 are as follows:

	Geology	Geophysics	Drilling	Analysis	Fracturing	General expenses	Options	Provision	Site maintenance	Total
	$	$	$	$	$	$	$	$	$	$
Anticosti	347,065	64,621	640,243	60,250		10,403	38,910	(37,500)	1,080	1,125,072
Gastonguay	320					2	77			399
Gaspésia Marcel-Tremblay Edgar	11,053	21,088				1,393	6,433			39,967
Gaspé	63,154	42,326	6,333	1,185	560	92,147	6,107		84	211,896
Bourque	45,635	4,014	7,391,229	8,190		39,879	3,154		7,458	7,499,559
Haldimand	391,588	100,020	434,265	3,780	928,157	49,782	62,433	41,992	132,997	2,145,014
Tar Point	11,027	160			292,625	5,818	14,815		4,099	328,544
Dalhousie	2,818	803	1,500			5,348	1,054			11,523
	872,660	**233,032**	**8,473,570**	**73,405**	**1,221,342**	**204,772**	**132,983**	**4,492**	**145,718**	**11,361,974**

c) **Regulation 51-102 Section 5.3**

Information on shares issued, share options and warrants as at March 13, 2014:

Common shares : 70,667,372 shares have been issued and are outstanding.

Share options outstanding : The share options granted to directors, members of senior management, employees and service providers are as follows:

- 180,000 options exercisable at a price of $0.89 per share until February 25, 2015
- 657,500 options exercisable at a price of $0.50 per share until December 8, 2015
- 75,000options 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
- 1,200,000 options exercisable at a price of $1.52 per share until December 4, 2016
- 75,000 options exercisable at a price of $1.51 per share until February 22, 2017
- 2,220,000 options exercisable at a price of $1.02 per share until December 10, 2017
- 150,000 options exercisable at a price of $1.14 per share until February 28, 2018
- 250,000 options exercisable at a price of $0.89 per share until August 21, 2018
- 400,000 options exercisable at a price of $0.98 per share until September 14, 2018
- 650,000 options exercisable at a price of $0.67 per share until December 5, 2018

Warrants outstanding : Each warrant entitles the bearer to purchase one common share of the Company at the indicated exercise price until the expiry date:

- 242,958 warrants exercisable at a price of $1.42 per share until May 14, 2014
- 48,840 warrants exercisable at a price of $1.15 per share until September 25, 2014
- 5,545,776 warrants exercisable at a price of $1.78 per share until May 15, 2015
- 100,000 warrants exercisable at a price of $0.70 per share until July 11, 2015
- 714,286 warrants exercisable at a price of $1.00 per share until July 11, 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 International Financial Reporting Standards 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.

Quebec City, March 13, 2014

On behalf of the Board

(signed) Myron Tétreault

Myron Tétreault

Interim President

(signed) Karl McLellan

Karl McLellan

Chief Financial Officer and Corporate Secretary

Board of directors

Myron Tétreault
Chairman of the board
President of the Compensation and Governance Committee
Charles Boulanger
Lead Director
President of the Audit Committee
David McCallum
Jacques Bourgeois
André Proulx

Legal counsel

Colby, Monnet, Demers, Delage & Crevier
Me Michel Hudon, Attorney

Listed shares – transfert agent

Computershare Trust Company
of Canada, Montréal

Shares listed

TSX Venture Exchange
Symbol : PEA

Capital-actions

70 652 372 common shares issued as at December 31, 2013

Auditors

Mallette, LLP, Rimouski, Canada

The Annual Meeting of the Shareholders of Pétrolia will be held on Wednesday, May 28th 2014 at 10:00 am at the Holiday Inn Montréal Midtown (La Plaza) room Ambassadeur C, at 420, rue Sherbrooke Ouest, Montréal, Québec H3A 1B4.