MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2015

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BY PEOPLE FROM HERE.
FOR HERE.

This management's discussion and analysis ("MD&A") covers the year from January 1, 2015 to December 31, 2015.

This MD&A was approved by the Board of Directors on March 31, 2016.

It presents the view of management on current Company activities and is accompanied by the financial results as at December 31, 2015. It may also cite significant events that occurred after December 31, 2015, and provides an overview of the activities planned for the months ahead.

In this MD&A, the reporting currency is the Canadian dollar (C$) and all amounts presented in this MD&A are in Canadian dollars.

1. DATE

The effective date of this MD&A for the year ended December 31, 2015 is March 31, 2016.

2. HIGHLIGHTS

- On March 9, 2015, Pétrolia announced the appointment of a new director and certain changes within its management team in order to continue implementing its business plan. First, Martin Bélanger was appointed director. Mr. Bélanger's experience over the last 24 years in the oil and gas industry will be extremely valuable to the Board of Directors. In addition, Mabrouk Ouederni, Eng., P. Geo. has been promoted to Operations Manager and Jean-Yves Laliberté, Eng., M.Sc. has been appointed Manager of Health, Safety, Environment, and Regulatory Affairs.

- On March 16, 2015, Pétrolia closed the private placement announced on February 26, 2015. The Company issued 2,728,500 flow-through shares at $0.80 per share for gross proceeds of $2,182,800.

- On November 4, 2015, the Company confirmed the closing of a private placement, issuing 3,825,000 flow-through shares at $0.40 per share for gross proceeds of $1,530,000. The Company will use these proceeds for exploration expenses in Canada on its properties located in Québec, including the Bourque property.

- On November 6, 2015, the Company confirmed the closing of private investments totalling $5,238,200, constituting the first phase of financing for the Bourque property. In this respect, the Company issued 8,005,000 units to Ressources Québec and 245,000 units to certain directors at $0.36 per unit, for gross proceeds of $2,881,800 and $88,200, respectively. Each unit comprises one common share of the Company and half a warrant. Each whole warrant entitles the holder to buy a common share of the Company at an exercise price of $0.54 during the 36 months following the closing of this private placement. Also, Ressources Québec and TUGLIQ Energy invested $918,200 and $1,350,000, respectively, in the Bourque property, via a partnership formed by the Company, Ressources Québec and TUGLIQ Energy. The Company will use the proceeds of these investments to carry out, during 2015 and 2016, the Bourque exploration program and for general Company purposes.

- On November 26, 2015, Pétrolia announced that in accordance with its compensation policy, and its stock option plan, which is to grant stock options each year to its employees and directors, Pétrolia's Board of Directors granted on November 25, 2015, 1,800,000 stock options to its employees and directors. The price has been set at $0.34 per share, and the expiry date for these options is November 24, 2020. Some of the options vest over a three year period

- Pierre Arcand, the Minister of Energy and Natural Resources and Minister responsible for the Plan Nord, announced in June a series of roundtable discussions on the social acceptability of public land development projects as well as energy resources and minerals. These discussions were intended to enhance the process currently carried out by the government to improve its practices and tools and to adopt guidelines to promote greater social acceptability for projects. Pétrolia representatives, including President and CEO Alexandre Gagnon, attended the discussions in Québec City and Gaspé. A brief in this respect was submitted to Minister Arcan on June 10, 2015.

- On December 21, 2015, Pétrolia wished to rectify certain comments made by Québec's Premier and make certain clarifications concerning the nature of the agreements pertaining to the exploration on Anticosti Island. Pétrolia also wished to state that it intends to respect and ensure full compliance with the agreements that bind it to its partners and expects the Government of Québec to demonstrate the same respect for the contracts and the commitments entered into. Exploration work on Anticosti since July 2014 has been performed by Anticosti Hydrocarbons L.P. ("AHCLP"). AHCLP was formed in March 2014 by four partners, who own shares in the following proportions: Government of Québec: (through Ressources Québec) 35%; Corridor Ressources: 21.7%; Pétrolia: 21.7%; and Saint-Aubin E&P (Québec) Inc.: 21.7%. The negotiation of the agreements that led to the creation of AHCLP began in August 2012 under a provincial Liberal Government. The announcement of the finalized agreements, made on February 13, 2014, by way of an official government statement, was the result of nearly two years of negotiations conducted by Pétrolia with two successive governments. The final negotiations that ultimately led to the creation of AHCLP were also conducted under the supervision of a special committee established by the Executive Council of the Government. This special committee was composed of five members, including representatives from both the ministère des Finances and Ressources Québec. AHCLP's mission is to estimate the share and market potential of hydrocarbon resources contained in the Macasty formation located underground in Anticosti Island. AHCLP's capital notably includes exploration licenses previously owned by Pétrolia and Corridor Ressources. To create AHCLP, Ressources Québec, acting as agent of the Government of Québec, and Saint-Aubin, both assisted by independant experts, assessed the value of the exploration licenses and partner contributions at $200 million. Pétrolia agreed to transfer its licenses on the basis of the firm commitments ratified by its partner, the Government of Québec, supporting the financing and promotion of hydrocarbon exploration work on Anticosti. Ressources Québec and Saint-Aubin are committed to finance and support petroleum exploration work up to an amount of $100 million dollars divided into two investment phases. Of this $100 million, Ressources Québec has committed to invest up to $56.67 million and Saint-Aubin up to $43.33 million. This capital injection of $100 million is to be made as and when the work progresses To date, disbursements made by Ressources Québec and Saint-Aubin amount to $13.5 million and $10.3 million, respectively, for a total of $23.8 million. The initial exploration program established by the agreements includes sequential performance of a stratigraphic drilling campaign and three directional drillings with hydraulic fracturing. Subject to certain delays prompted by the change of government, the program stipulated in the agreements has so far been respected and the stratigraphic drilling campaign is now completed. The work sequence, as provided by the agreements, foresees that the three directional drillings with hydraulic fracturing are to be performed in the summer of 2016. Pétrolia and its subsidiary, Pétrolia Anticosti, consider that unless otherwise advised by Ressources Québec, acting as agent of the Government of Québec, the agreements formally and duly concluded in good faith between the parties continue to apply and they should take precedence over the influences and interferences of politics. Contrary to what was stated by the Premier of Québec, Pétrolia believes there is nothing in the agreements that give the Government of Québec the right to withdraw from or avoid its contractual obligations. The agreements were signed in good faith with the Government of Québec and were approved by decree of the provincial cabinet. A number of shareholders have invested and put their trust in Pétrolia based on the presumed reliability of the Government's commitments. According to Pétrolia, the public statements made by the Government that it does not intend to meet with its contractual commitments are serious and highly prejudicial. These statements are also irreconcilable with the favourable results obtained to date as part of the exploration program. On the basis of these results, a recent strategic environmental study commissioned and published by the Government of Québec concludes that it would be possible to realize the Anticosti energy development project while ensuring the environmental protection of the territory and respecting the local population. From a financial standpoint, this study estimates that the project has an 80% to 86% probability of being economically viable and has the potential to generate revenues of $164 billion with profits of $75 billion. Finally, the same study estimates that the project could generate revenues of $46 billion to $48 billion for the Government while creating more than 2,000 jobs in Québec. As a Québec corporation whose head office is located in Québec City, Pétrolia has always cherished the ideal of achieving energy self-sufficiency and creating of wealth for Quebecers. More than three years ago, the Government of Québec approached Pétrolia and expressed the desire to share and make true this ideal through partnerships and contractual agreements. In light of recent statements, it is necessary to recall the existence and binding nature of these agreements.

- On January 25, 2016, Pétrolia announced that it is the third ranked oil and gas company in Canada in the 2016 TSX Venture 50®, a ranking of strong performers that have shown results in key measures of market performance. "We are pleased that our company has been selected," commented Pétrolia CEO Alexandre Gagnon. "This inclusion reflects the work accomplished on Haldimand 4 in 2015, the progress made on Bourque and the quality of our role as an operator of several projects, in particular on the Anticosti island. We can proudly say that 2015 has been the busiest year of our history. Given the current situation in the global oil and gas market, our company has performed comparatively well." The 2016 TSX Venture 50 ranking is composed of 10 companies from five industry sectors selected based on three equally weighted criteria: market capitalization growth, share price appreciation, trading volume and analyst coverage.

3. COMPANY'S INCORPORATION AND MISSION

Incorporated under Part 1A of the *Québec Companies Act* and governed by the provisions of the Québec *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 in the exploration stage and the Company's long-term profitability depends in part on the costs and success of the exploration programs and subsequent development. The Company has yet to determine whether its properties contain economically feasible reserves.

The Company is primarily engaged in exploration and development under oil and gas exploration licences. In pursuing its objectives, the Company is required to enter into partnership agreements specific to the oil and gas industry.

4. FORWARD-LOOKING STATEMENTS

Some of the statements made in this MD&A 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, performance and achievements to differ from those expressed or implied by such statements. The difference from actual events or results could be material. 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. STRATEGIC OBJECTIVES AND PLANS

The Company aims to discover marketable oil resources and put them into production as quickly as possible, with a view to ensuring profitability. The Company pursues this objective while ensuring its operations meet personal safety standards and factor in environmental and social impacts.

Pétrolia achieves this objective by securing promising licences and associating with partners with the necessary technical and financial expertise. The Company drills wells on the basis of scientific expertise and employs leading drilling techniques in accordance with industry best practices. Occupational and community health and safety are key concerns for the Company in the planning and performance of exploration work. Special attention is also paid to local community and business relationships, as well as environmental protection.

Pétrolia is a responsible Québec oil company with the goal of producing oil in Québec.

6. TERRITORIES UNDER LICENCE AND PARTNERSHIPS

Pétrolia holds licences for and interests in an area of over 16,475.85 square kilometres ("km^2"), amounting to nearly 23% of Québec's territory under licence. Located in Eastern Québec, these areas are largely known for their oil potential. Pétrolia's territories under licence also offer the potential of discovering natural gas possibly containing liquid natural gas.

There are four partnership agreements covering portions of the Company's territories under licence:

- A partnership agreement in respect of 38 exploration licences (6,195 km^2) on Anticosti Island was entered into on March 31, 2014 between Ressources Québec (35%), Pétrolia Inc. (21.7%), Saint-Aubin E&P (Québec) Inc. (21.7%) and Corridor Resources Inc. (21.7%). This limited partnership is named Anticosti Hydrocarbons L.P.

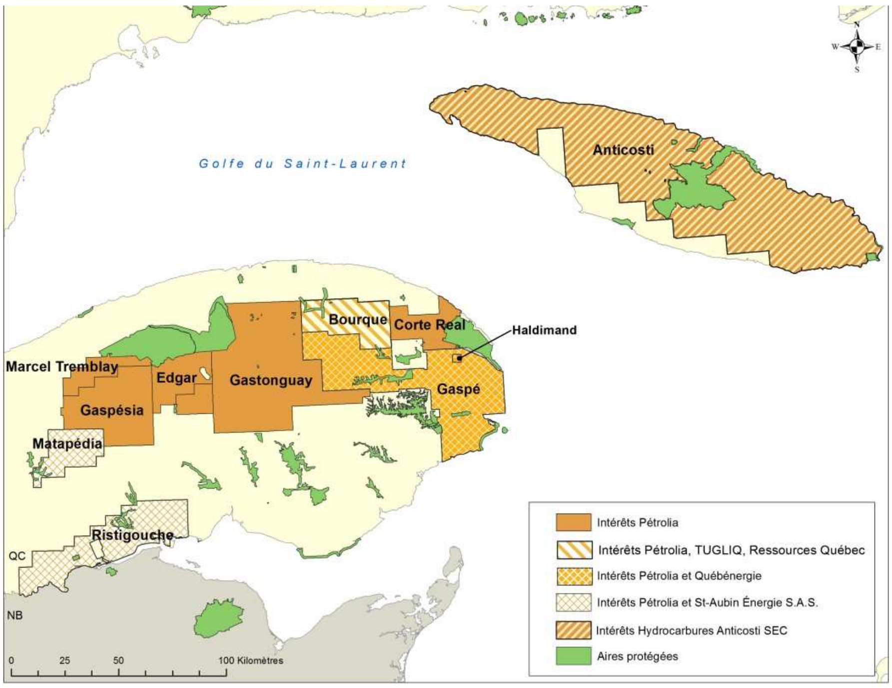
- On the Gaspé licences, Pétrolia and Québénergie each hold a 50% interest in each of the 13 licences, covering a total area of approximately 2,500 $km.^2$

- On the Baie-des-Chaleurs–Matapédia and Ristigouche licences, Pétrolia and Saint-Aubin Énergie S.A.S. (a subsidiary of Maurel & Prom and Maurel & Prom International) each hold a 50% interest in 13 licences that cover an area of over 1,800 $km.^2$

- The interests in the four Bourque licences are as follows: Pétrolia – 89.91%; TUGLIQ Energy – 5.29%; and Ressources Québec – 4.80%.

- The remaining licence blocks are wholly owned by Pétrolia.

  The following map plots the locations of the licences held by Pétrolia and its partners.



7. PROJECTS, WORK PROGRAMS AND OUTLOOK

Haldimand Project (Gaspé Block)

Background

- Discovered in 2006, Haldimand is a conventional deposit located in the York River Formation, which consists of naturally fractured sandstone. An independent assessment by Sproule Associates Limited in 2010 placed the best estimate of the oil-initially-in-place (P50) at 69.7 million barrels and the recoverable (contingent) portion of that volume at 7.7 million barrels.

Pumping, cleaning and preparing the production test

- The production pump arrived at the Haldimand 4 site on April 24, 2015. The pump was initially used to complete well cleaning operations. To install the pump, the well was opened twice: once on March 31, and a second time on April 24. The first opening allowed the verification of the production separator before pump installation. The opening of the well on March 31 enabled the production of 10.2 cubic meters (“m^3”) (64 barrels) of light crude oil by natural means and a 17.31 m^3 (109 barrels) upon reopening on April 24.
- The opening of the well from April 24–27 helped both reduce the pressure at the wellhead to allow for the safe and secure installation of the pump by using the safety valve and the rods as well as the equipment already present at the wellhead. The pump will help continue the cleanup of the remaining drilling mud and help with the evaluation of the well potential in order to plan the next steps, either to undertake production tests or plan further cleanup operations before initiating production tests.
- The production data from the pump operation test shows that some of the high-density drilling fluids remained in the well. Before commencing a long-term production test not exceeding 240 days as per the new regulation, the Corporation had to ensure that the well has been properly cleaned. The cleaning operation was carried out by inserting coil tubing down to the bottom of the 2,000 metre horizontal drain to inject nitrogen and the rising gas will force all the drilling fluids out of the well.
- The completion permit we obtained on October 6, 2015 will allow us to complete nitrogen-based cleanup operations for Haldimand 4.
- On January 6, 2016, Pétrolia confirmed that well cleanup operations had been completed at Haldimand 4, leading to a significant improvement in well production. These operations have been performed without any health, safety or environmental incident. These operations, which took place between November 18 and December 20, 2015, involved successive phases of well cleaning with nitrogen, then acid and a final nitrogen cleanup. A natural oil runoff period followed during which the well produced up to 59.8 barrels (9.5 m^3) of crude oil per day with an average of 43.5 barrels (6.9 m^3) per day. A total of 360 barrels (57.2 m^3) of crude were produced in a little more than 8 days between December 12 and 20, 2015. This average production of 43.5 barrels (6.9 m^3) per day compares favourably with the 13.8 barrels (2.19 m^3) per day observed immediately before the well cleanup, which validates the effectiveness of these operations. All the data gathered will be analyzed over the next few weeks. In view of these encouraging results, the Pétrolia team is currently at work planning the next phases, including a 240-day long-term production test that should begin in spring 2016.

Social acceptability

- The relationship with the Gaspé municipality has been largely normalized and a monitoring committee has been set up with City of Gaspé to gauge public opinion.

- Four citizen committee meetings were held during the period from January 1 to December 31, 2015. At these meetings, Pétrolia communicated to the citizens and the municipality the past and future actions related to the Company's different projects in their region.

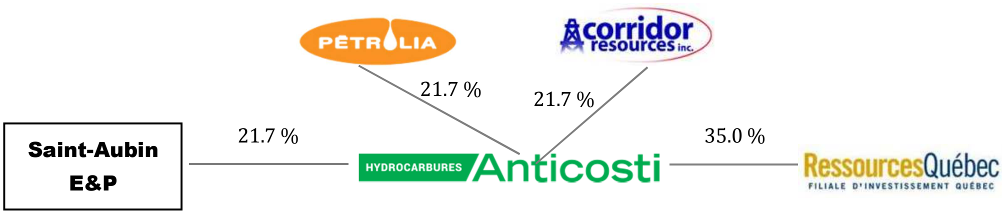
- On October 20, 2015, the ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques informed Pétrolia management that it had decided to have the project reviewed via Strategic Environmental Assessment (SAE) instead of by the BAPE.

Anticosti Project

Background

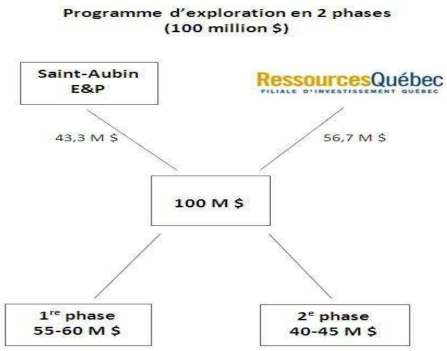
- The main goal of the Anticosti project is to develop the hydrocarbon source rock contained in the Macasty Formation and determine whether this type of deposit can be developed economically. According to Sproule Associates Limited, the best estimate (P50) of the undiscovered total petroleum-initially-in-place volume amounted to 33.9 billion barrels. That estimate was based on the information available on June 1, 2011 for the 38 licences held by Anticosti Hydrocarbons L.P.

- An agreement was entered into on March 31, 2014 between Pétrolia and its partners and covers 38 licences on Anticosti Island:



- Anticosti Hydrocarbons L.P. is managed by a five-member Board of Directors comprising one member representing each of the partners and an independent director, Mr. Kjell Pedersen.

- Saint-Aubin E&P and Ressources Québec will assume the cost of the first two exploration program phases up to a maximum of $100 million:



- Pétrolia Anticosti inc., a wholly owned subsidiary of Pétrolia, was appointed operator of limited partnership Anticosti Hydrocarbons L.P.

Completed and scheduled work

First phase:

- 2014-2015:
  Stratigraphic testing was carried out using four mining drills equipped with oil drilling safety devices.

  These surveys enabled the extraction of boring cores from the Macasty Formation and will be used, in particular, to identify the best locations for the oil wells to be drilled in 2016.

- 2016:
  Drilling of 3 horizontal exploration wells with fracking.

Costs for this initial phase are expected to total between $55 million and $60 million, of which 56.7% will be borne by Ressources Québec and 43.3% by Saint-Aubin E&P.

Based on phase I results and a green light from Anticosti Hydrocarbons L.P.'s Board of Directors, a second phase will follow beginning in 2017.

Second phase:

- 2017: Horizontal oil wells will be drilled with fracking.
  Under the current agreements, the first $40 million–$45 million of costs will be borne by Ressources Québec (56.7%) and Saint-Aubin E&P (43.3%). Following $100 million in incurred exploration costs borne by contributions from Ressources Québec and Saint-Aubin E&P, subsequent costs will be assumed according to the four limited partners' proportionate interests.

Assessment of the 2015 stratigraphic survey campaign

- On May 21, 2015, Anticosti Hydrocarbons L.P. announced an update of the 2011 report by Calgary-based Sproule Associates Limited. This update is effective as at April 30, 2015. The firm's best estimate of the total petroleum-initially-in-place volume within the perimeter of the licences held by the Company on the Anticosti Island amounted to 30.7 billion barrels of oil .

- The stratigraphic surveys on Anticosti Island were completed on October 2, 2015. We completed seven surveys this year, bringing the total number of surveys to 12, as decided by the partners on June 23, 2015 via the Board of Directors of Anticosti Hydrocarbons L.P. Finalizing this first phase of the program will help prepare for drilling three horizontal exploration wells with fracking, once all required licenses are obtained.

- In December 2015, the drilling of nine hydrogeological wells was completed to enable the different ministries to carry out the hydrogeological studies required to issue a certificate of authorization.

Application for a certificate of authorization

- On February 8, 2016, Pétrolia filed an application for a certificate of authorization from the ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques (MDDELC) for the drilling of three horizontal oil exploration wells with hydraulic fracking. Pursuant to its Statement of Services to Citizens, the Ministry is committed to issuing an official response within 75 days from the reception of the application of the certificate of authorization.

Assessment of social acceptability

- The goal of Pétrolia Anticosti inc. for the next quarter will be to integrate a national dimension to the steps completed as regards local social acceptability.

- The current stratigraphic survey campaign made it possible to inject close to $2 million into the Anticosti Island economy.

- On January 28, 2016, Pétrolia organized a public consultation on Anticosti Island, during which the Company discussed in detail the project for drilling three horizontal exploration wells with fracking. The event was attended by nearly 18% of the local population. During the question period, the audience had the opportunity to express themselves freely and ask questions on the subject. The consultation report was then handed over to the municipality and to MDDELCC. It is available in French at http://hydrocarbures-anticosti.com/imports/medias/documentations/consultation/rapport-de-consultation-vf-final.pdf

Strategic Environmental Assessment ("SEA")

- In April 2015, the government made public the preliminary environmental studies (knowledge assessment) commissioned in connection with the SEA specific to Anticosti. These studies showed a possible favourable outcome for oil and gas exploration at Anticosti.

- On October 28, 2015, the ministère de l'Énergie et de Ressources naturelles made public a summary of the knowledge and information acquired from the SAE. The highlights are as follows:

  - In 2013, Québec imported more than 137 million barrels of oil and 7.7 billion m^3 of natural gas from other Canadian provinces, the U.S. and other countries. These imports amounted to $13.5 billion, which accounts for 61% of the commercial trade deficit of the Province.
  - Québec has a long history of oil & gas exploration and a number of prospective basins, including Anticosti Island, have significant potential for hydrocarbon production.
  - The Macasty Shale formation currently found on Anticosti Island is geologically similar to the Utica and Point Pleasant formations in Ohio that are currently producing hydrocarbons.
  - Over a 75-year period and based on an optimized production scenario, Anticosti Island could produce a total of 11,683 billion cubic feet of natural gas and 584 million barrels of oil. During the maximum production period, this could amount to 246 billion cubic feet of natural gas and 12.3 million barrels of oil per year, which represents 113% of the annual gas consumption and 9% of the annual oil consumption for the province.
  - The project could generate potential revenues of $164 billion and profits of $75 billion.
  - Including royalties, taxes and its ownership interest in the project, direct revenues of the Government of Québec could range from $46 to $48 billion and the project could create more than
  - 2,000 jobs per year.
  - Based on a detailed analysis of all the key production and infrastructure variables related to project development, the Government of Québec estimates the project's economic viability at between 80% and 86%.
  - The full development of the project would have an impact of less than 2% on the greenhouse gas emission targets set by the Government of Québec for 2020.
  - The SEA recommends a variety of measures and best practices that can be implemented to address the environmental impacts of the project, considering that similar projects are underway elsewhere in the world.
  - Pétrolia (PEA-TSXV) is extremely satisfied to note that according to the SEAs commissioned and published by the Government of Québec, the financial profitability and the technical and environmental feasibility of the Anticosti project is realistic.

Bourque Project

Background

- The Bourque Project is located in a non-urbanized area, about 30 km east of the town of Murdochville.

- When the Bourque 1 and Bourque 2 wells were drilled in 2012, samples of wet natural gas (containing up to 20% natural gas liquids and condensates) were taken from the Forillon Formation. The presence of gas liquids and condensates adds significant commercial value to the Bourque discovery. The discovery of this type of deposit adds value to Pétrolia's licences in the Gaspé peninsula where similar geological conditions exist and are conducive to new discoveries.

- The drilling of Bourque 1 and 2 wells and the 3D seismic interpretation revealed four geological prospects in the Forillon Formation for which Sproule Associates Limited provided an estimate of the resources initially in place. Based on information available as at March 31, 2013, Sproule estimated the undiscovered gas volume initially in place at over 1 trillion cubic feet (one thousand billion).

Partnership

- TUGLIQ Energy and Pétrolia have joined forces to promote economic development in the Côte-Nord region. At a press conference in Sept-Îles, Pétrolia announced, on November 19, 2014, the signing of an exclusive agreement with TUGLIQ Energy to distribute gas produced under its Bourque licences in Gaspésie. The Gaspésie authorities are backing this project which is located midway between Murdochville and Grande-Vallée. The agreement could therefore provide TUQLIQ Energy with the natural resources it needs to supply its industrial clients in Côte-Nord and Nord-du-Québec regions.

- A partnership was formed by the Company, Ressources Québec and TUGLIQ Energy for the investments made by Ressources Québec and TUGLIQ Energy in the Bourque property. For the purposes of this transaction, the value of the Bourque property was based on expenses incurred by the Company in the amount of $21.9 million. Ressources Québec invested $918,200 in the partnership in consideration for a 4.80% interest in the Company’s licences for the Bourque property, while TUGLIQ Energy acquired a 5.29% interest in the same licences in consideration for its investment of $1,350,000. The Company has also invested $1,350,000 in the partnership (see press release of November 4, 2015), which gives it an 89.91% interest in the partnership.

- The proceeds of these investments were earmarked for the Bourque exploration program; the Company used part of the proceeds in 2015, and the remaining amount will be spent in 2016.

Social acceptability

- The Bourque Project has received public support from the Côte de Gaspé RCM and the Murdochville, Gaspé, Grande-Vallée, Petite-Vallée, Sept-Îles and Port-Cartier municipalities.

- In addition, Coalition Plein Gaz sur la Côte-Nord (which brings together mining and industrial companies and decison-makers), Manufacturiers et Exportateurs du Québec, Fédération des Chambres de Commerce and Minalliance have publicly supported Bourque Project development.

Other properties

Other

- Pétrolia is reviewing all of its data from its other properties in the Gaspé peninsula to identify areas with characteristics similar to those found in the Bourque Project.

COMPANY EXPERTISE

Pétrolia has a dynamic, motivated team, with highly skilled technical personnel, making it an oil and gas industry leader in Québec.

All Company worksites employ industry best practices. As a result, every effort is made to reduce environmental and social risk as much as possible. On that front, an emergency measures plan tailored to the reality of each region is prepared to prevent and react effectively to emergency situations.

MANAGEMENT'S ANALYSIS OF FINANCIAL INFORMATION

OPERATING RESULTS AND CASH POSITION

Revenues for the year ended December 31, 2015 consisted of $37,181 in interest income from short-term investments, $195,046 in project management revenues and $7,166 in other income, compared with $55,843, $313,983, and $52,226, respectively, for the year ended December 31, 2014. Revenues from oil deposit evaluation amounted to $30,409 compared with a nil amount in the previous fiscal year and are reported as a deduction from exploration expenses.

Project management revenues comprise management fees invoiced by the Company as a project operator for exploration work. The reduction in project management revenues is due to a one-time payment received in March 2014 in reimbursement of previously incurred operating costs for the Anticosti project, a non-recurring item in 2015.

For fiscal 2015, the Company generated a net loss of $1,552,635, compared with net income of $17,581,772 for the previous fiscal year.

As at December 31, 2015, the Company had cash and cash equivalents of $7,522,772, including $4,201,075 held for exploration purposes, and $3,169,474 in positive working capital.

ANALYSIS OF CASH FLOWS

For the year ended December 31, 2015, the Company generated a net loss of $1,552,635, compared with net income of $17,581,772 for the year ended December 31, 2014. In fiscal 2015, net cash used in the Company's operating activities amounted to $1,327,807, compared with net cash used of $3,421,784 in 2014, the difference arising mainly from the significant decrease in administrative expenses during fiscal 2015.

Cash flows used in investing activities for fiscal 2015, totalled $4,929,169, mainly due to increases in exploration and evaluation costs net of recovered amounts of $4,609,510 and oil and gas property costs of of $161,272. The Company also made contributions totalling $133,384 in associates during the period. For the year ended December 31, 2014, investing activities generated cash of $1,584,320, stemming in large part from the acquisition of a $1,933,333 interest in an associate, related acquisition costs of $1,013,144, a $3,872,776 decrease in exploration and evaluation costs net of recovered amounts, the acquisition of oil and gas properties of $162,345, contributions in associates of $80,304 and the disposal of an investment with a value of $930,000.

Cash flows from financing activities for the year ended December 31, 2015 amounted to $8,540,237, stemming essentially from net proceeds totalling $6,278, 484, net of share issue expenses, from the issue of 14,803,500 shares and advances received from partners for the Bourque Project of $2,268,200. For fiscal 2014, cash flows from financing activities amounted to $2,089,334, stemming from proceeds totalling $5,088,266, net of share issue expenses, from the issue of 6,964,323 shares, and repayment of bank borrowings in the amount of $2,998,932 .

ANALYSIS OF OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses for the year ended December 31, 2015 decreased by $1,601,811 compared with the previous fiscal year, in line with management's cost-reduction objectives. In addition, the Company re-invoiced operating and administrative expenses in the amount of $817,173 during fiscal 2015 compared with $725,994 for fiscal 2014.

The main differences in operating and administrative expenses were as follows:

- Salaries and employee benefits, share-based compensation and fees: The decreases in operating and administrative expenses are in line with the management's aims to cut costs by reducing the number of employees, compensation paid and fees.
- Travel, and promotion and entertainment expenses: Travel, and promotion and entertainment expenses related to administration decreased by nearly $220,000 in line with cost-cutting objectives.
- Professional services: During fiscal 2015, professional services decreased by nearly $165,000 compared with fiscal 2014 as non-recurring professional fees were incurred in 2014.
- Depreciation of property, plant and equipment: Depreciation of leasehold improvements decreased by over $155,000 during fiscal 2015 compared with 2014 as most leasehold improvements were fully depreciated as at December 31, 2014.

ANALYSIS OF SHARE OF ASSOCIATES

The Company's share in the net losses of associates for fiscal 2015 totalled $143,995 compared with $99,450 for fiscal 2014.

Financial information

Key financial information for the interests held by Pétrolia in Anticosti Hydrocarbons L.P. and Anticosti Hydrocarbons General Partner Inc. [21.7% of units] through Investissement PEA inc. is as follows:

	2015 **$**	**2014** **$**
Assets	125,206,675	114,588,937
Liabilities	1,308,377	550,882
Partners' equity	123,898,298	114,038,055
Revenues	—	—
Net loss and comprehensive loss	(664,590)	(458,926)
Share of Pétrolia [21.7%]	(143,995)	(99,450)

SELECTED ANNUAL INFORMATION

	2015 $	2014 $
Revenues (including financial income)	239,393	422,052
Net income (loss)	(1,552,635)	17,581,772
Net earnings (loss) per share - basic	(0.019)	0.237
Net earnings (loss) per share - diluted	(0.019)	0.237
Total assets	89,846,211	84,183,385

SUMMARY OF QUARTERLY RESULTS

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

	December 2015 $	September 2015 $	June 2015 $	March 2015 $
Revenues (including financial income)	51,627	27,912	55,442	104,412
Net loss	(697,221)	(187,096)[(1)]	(362,795)[(1)]	(305,523)[(1)]
Net loss per share				
Basic	(0.008)	(0.002)	(0.005)	(0.004)
Diluted	(0.008)	(0.002)	(0.005)	(0.004)

	December 2014 $	September 2014 $	June 2014 $	March 2014 $
Revenues (including financial income)	40,289	107,406	63,644	210,713
Net income (loss)	(740,982)	(298,900)	(975,907)	19,597,561[(2)]
Net earnings (loss) per share				
Basic	(0.010)	(0.004)	(0.013)	0.290
Diluted	(0.010)	(0.004)	(0.013)	0.287

Revenues consist primarily of interest income, rental income and project management revenues for each quarter. Operating and administrative expenses and shares of associates are relatively stable from quarter to quarter and the main differences were discussed above. The main changes in quarterly income (loss) resulted from the following:

2014 – March	Recognition of a gain on transfer of certain licences of $28,059,532[2]
2014 – May	Recognition of share-based payment of $148,843
2014 – November	Recognition of share-based payment of $305,492
2015 – March	Recognition of share-based payment of $22,275
2015 – May	Recognition of share-based payment of $31,006
2015 – November	Recognition of share-based payment of $222,663

[(1)] During the quarter ended September 30, 2015, the Company reviewed the calculation of the deferred tax recovery, adjusting it to $50,004 from $142,786 for the first quarter of 2015 and to $112,290 from $239,773 for the second quarter of 2015. These adjustments resulted in increases in the deferred tax liability by $92,782 as at March 31, 2015 and by $126, 983 as at June 30, 2015 while the net loss increased and retained earnings decreased by these same amounts for the three-month periods ended March 31, 2015 and June 30, 2015. Those adjustments also increased net loss per share and net diluted loss per share by $0.001 and $0.002, respectively, for the three-month periods ended March 31, 2015 and June 30, 2015.

[(2)] During the year ended December 31, 2014, the Company reviewed the calculation of the non-cash gain on transfer of ownership of certain licences [“gain”], adjusting it to $28,059,532 from $34,809,059 to reflect the elimination of its $7,762,671 share in the gain and account for the professional fees incurred for the acquisition of an interest amounting to $1,013,144 in the value of the interest in an associate rather than against the gain. Those adjustments resulted in a reduction in the interest in an associate and the gain amounting to $6,749,527, as well a reduction in deferred tax liabilities of $1,815,623 as at March 31, 2014. Those adjustments also resulted in a $4,933,904 reduction in net income and comprehensive income as well as retained earnings for the three-month period ended March 31, 2014 and a $0.073 reduction in net basic earnings per share and net diluted earnings per share for the three-month period ended March 31, 2014.

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

Key management personnel compensation includes the following expenses:

	2015	2014
	$	$
Short-term employee benefits:		
Salaries and employee benefits	735,243	1,087,525
Director fees	138,566	122,500
Total short-term employee benefits	873,809	1,210,025
Fees	120,238	391,750
Share-based compensation	170,261	428,976
Total compensation	1,164,308	2,030,751

During the years ended December 31, 2015 and 2014, no options granted under the stock option plan were exercised by key management personnel.

RELATED COMPANIES AND OTHER PARTIES

Transactions were carried out:

With a company in which a director is a majority shareholder:

	2015	2014
	$	$
Comprehensive income:		
Other expenses	17,000	30,000

With an associate:

	2015	2014
	$	$
Comprehensive income:		
Project management	112,893	111,193

As at December 31, 2015, an amount of $944,309 [December 31, 2014 – nil] was receivable from Anticosti Hydrocarbons L.P. while a nil amount [December 31, 2014 – $16,786] was receivable from Anticosti Hydrocarbons General Partner Inc.

In addition, as at December 31, 2015, a contribution of $19,637 [December 31, 2014 – nil] was payable to Anticosti Hydrocarbons L.P., while a contribution of $10,120 [December 31, 2014 – nil] was payable to Anticosti Hydrocarbons General Partner Inc.

As at December 31, 2014, Anticosti Hydrocarbons L.P. provided a non-interest bearing advance without repayment terms in the amount of $258,819 [December 31, 2015 – nil] to the Company. The funds advanced were used to finance exploration activities during the first three months of fiscal 2015.

These transactions were in the normal course of business and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

COMMITMENTS

Under the terms of exploration licences granted by the ministère des Ressources naturelles et de la Faune du Québec, the Company is committed to pay fees in the amount of $2,838,360 by 2024. The minimum payments required in the next five years are as follows:

2016	2017	2018	2019	2020
$	$	$	$	$
131,750	131,750	172,103	474,883	510,997

The adoption of Bill 18 in Québec 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. In June 2014, this period was extended until an act on hydrocarbons is tabled. Pétrolia may, however, still continue its activities despite the suspended obligation.

FINANCIAL INSTRUMENT DISCLOSURE

Risk management policy

The Company's financial assets and liabilities expose it to various risks. The following analysis provides an assessment of those risks as at the date of the statement of financial position, that is, December 31, 2015.

Credit risk

The financial instruments that give rise to potential credit risk exposure for the Company consist primarily of cash, cash equivalents and receivables. The Company's cash and cash equivalents are held with or are issued by established Canadian financial institutions. The receivables are mostly amounts due from partners and associates for exploration work carried out by the Company as the designated operator. Therefore, management considers the risk of non-performance of these instruments to be remote.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due or can 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 primary financial goals is to maintain an optimal level of liquidity through the active management of its exploration activities. The Company's maximum exposure to liquidity risk is equal to the amounts recognized under trade and other payables, which will be paid in the following quarter, and bank borrowings to be repaid as contractually agreed under the loan agreement.

Market risk

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

Interest rate risk

The Company is exposed to fair value risk through interest rate risk on its fixed- and variable-rate financial instruments.

JUDGMENTS, ESTIMATES AND ASSUMPTIONS

For a complete description of the judgments, estimates and assumptions made by management in the preparation of its annual consolidated financial statements, see note 4 to the annual consolidated financial statements as at December 31, 2015.

FUTURE CHANGES IN ACCOUNTING POLICIES

For a complete description of future changes in accounting policies, see note 3 to the annual consolidated financial statements as at December 31, 2015.

CAPITAL MANAGEMENT

For a complete description of the Company's capital management policy, see note 21 of the annual consolidated financial statements as at December 31, 2015.

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, 2015 were as follows:

	Geology $	Geophysics $	Completion and drilling $	Analysis $	Fracturing $	General expenses $	Options $	Provision $	Site maintenance $	Total $
Anticosti	-	-	202	-	-	3,555	-	158,921	-	162,678
Gastonguay	77	-	-	-	-	-	-	-	-	77
Gaspésia Marcel-Tremblay Edgar	332	-	-	-	-	-	-	-	-	332
Gaspé	18,269	600	-	3,315	-	306,020	-	80,133	136	408,473
Bourque	22,516	13,157	670,520	54,122	-	8,458	-	147,447	1675	917,895
Haldimand	21,824	600	5,301,310	27,985	-	24,838	-	107,801	56,123	5,540,481
Tar Point	75	-	-	-	-	3,224	-	35,430	500	39,229
Matapédia	85	-	-	-	-	-	-	-	-	85
	63,178	**14,357**	**5,972,032**	**85,422**	**-**	**346,095**	**-**	**529,732**	**58,434**	**7,069,250**

Exploration expenses for the year ended December 31, 2014 were as follows:

	Geology $	Geophysics $	Completion and drilling $	Analysis $	Fracturing $	General expenses $	Options $	Provision $	Site maintenance $	Total $
Anticosti[(1)]	73,720	7,500	9,132	26,345	-	193,165	-	-	-	309,862
Gastonguay	515	-	-	-	-	321	-	-	-	836
Gaspésia Marcel-Tremblay Edgar	1,750	-	-	-	-	1,254	-	-	-	3,004
Gaspé	25,029	8,325	1,540	150	-	104,482	-	-	600	140,726
Bourque	9,207	13,575	46,795	56,426	-	85,793	-	-	-	211,796
Haldimand	8,860	-	5,935,663	2,440	-	696,472	-	73,778	46,021	6,763,234
Tar Point	478	-	-	-	-	19,242	-	-	-	19,720
Matapédia	790	1,200	28,388	-	-	10,879	-	-	-	41,257
	120,949	**30,600**	**6,021,518**	**85,361**	**-**	**1,111,608**	**-**	**73,778**	**46,621**	**7,490,435**

(1) These amounts include exploration costs before the transfer of licences to Anticosti Hydrocarbons L.P.

(c) Regulation 51-102 Section 5.4

Information on shares issued, share options and warrants as at March 31, 2016:

Common shares: 92,420,195 shares are issued and outstanding.

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

• 500,000 options exercisable at a price of $1.69 per share until May 18, 2016;

• 1,030,000 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;

• 2,095,000 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;

• 615,000 options exercisable at a price of $0.67 per share until December 5, 2018;

• 405,000 options exercisable at a price of $0.67 per share until May 27, 2019;

• 1,030,000 options exercisable at a price of $0.49 per share until November 25, 2019;

• 75,000 options exercisable at a price of $0.57 per share until March 25, 2020.

• 75,000 options exercisable at a price of $0.55 per share until May 27, 2020;

• 1,800,000 options exercisable at a price of $0.34 per share until November 24, 2020;

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

• 714,286 warrants exercisable at a price of $1.00 per share until July 11, 2016;

• 4,125,000 warrants exercisable at a price of $0.54 per share until November 6, 2018.

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. The consolidated financial statements of Pétrolia Inc. as at December 31, 2015 and 2014 and for the years then ended have been audited by Ernst & Young LLP, the Company's independent 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.

Québec City, March 31, 2016

On behalf of the Board of Directors,

(signed) Alexandre Gagnon
Alexandre Gagnon
President and Chief Executive Officer

(signed) Karl McLellan
Karl McLellan
Chief Financial Officer and Corporate Secretary