MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE PERIOD ENDED DECEMBER 31, 2016

OIL FROM HERE.
BY PEOPLE FROM HERE.
FOR HERE.

This management's discussion and analysis ("MD&A") covers the period from January 1, 2016 to December 31, 2016.

This MD&A was approved by the Board of Directors on March 28, 2017.

It presents the view of management on current Company activities and is accompanied by the financial results as at December 31, 2016. It may also provide information on significant events that occurred after December 31, 2016, 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 are presented in Canadian dollars.

1. DATE

The effective date of this MD&A for the year ended December 31, 2016 is March 28, 2017.

2. ANNUAL HIGHLIGHTS

- On January 25, 2016, Pétrolia announced it took the third spot in the Oil & Gas sector ranking of the 2016 TSX Venture 50™, which honours top performers that have shown superior results in key measures of market performance. The 2016 TSX Venture 50 ranking is composed of ten companies from five industry sectors selected based on three equally weighted stock price performance criteria for the 2015 calendar year: market capitalization growth, share price appreciation, trading volume and analyst coverage.

- On February 15, 2016, Pétrolia held a press conference in Québec City to address a number of comments made by the Premier of Québec and provide significant clarifications as to the nature of the Anticosti Island oil and gas exploration agreements. The full version of the statement can be found here (in French).

- On March 1, 2016, Pétrolia announced that Albert Wildgen had stepped down from the Company's Board of Directors.

- On March 9, 2016, the management of Pétrolia met with the Premier of Québec to discuss hydrocarbon exploration on Anticosti Island. During the meeting, the Premier confirmed, in particular, that the project agreements will be upheld. Once the certificate of authorization has been obtained, the exploration work set out in the agreements, comprising the three oil wells to be drilled with hydraulic fracking, will be performed in 2016 and 2017.

- On April 7, 2016, Pétrolia issued a press release in reaction to the launch of the Québec Energy Policy, noting that its guidelines are consistent with the action plan unveiled in May 2014 which maps out a fully transparent, step-by-step approach for the government's hydrocarbon development endeavours.

- On April 29, 2016, the Geological Survey of Canada released a research paper on Anticosti. The paper entitled, *Geological characteristics and petroleum resource assessment of the Macasty Formation, Anticosti Island, Quebec, Canada*, corroborates the oil potential of Anticosti Island. Researchers Z. Chen, D. Lavoie, C. Jiang, M.J. Duchesne and M. Malo conducted the first independent evaluation of the hydrocarbon potential for the Macasty Formation on Anticosti Island. The evaluation of the in-place petroleum and gas resource carried out by the Geological Survey of Canada corroborates the figures put forward by the Sproule assessments requested by Pétrolia in 2011 and Anticosti Hydrocarbons L.P. in 2015. Their assessment indicated a significant volume of in-place resources, consisting of (best estimate: P50 output level) 32.3 billion barrels of oil (BBO), a maximum (P5 output level) of 55.4 BBO and a minimum (P95 output level) 17.1 BBO, and of (best estimate: P50 output level) 52.4 trillion cubic feet (TCF) of natural gas, a maximum (P5 output level) of 85.2 TCF and a minimum (P95 output level) of 29.0 TCF. In addition, based on these results, a ratio of 78% oil to 22% natural gas is proposed as in-place resource on the island. Lastly, the Geological Survey of Canada's results further indicate that the locations for the three horizontal wells that were to be drilled in summer 2016 on Anticosti Island to demonstrate the production potential of the Macasty Formation are located in a favourable geologic setting for liquid and gaseous hydrocarbon production.

- On May 13, 2016, Pétrolia announced that, provided it obtains the necessary licences and government authorizations, the 2016 drilling campaign on Anticosti Island will begin as planned in June. The Board of Directors of Anticosti Hydrocarbons L.P. decided to do the drilling, per se, in summer 2016 and hydraulic fracking and production testing at the beginning of summer 2017. With this decision, which was not provided for in the initial contracts, the production testing period will extend beyond hydraulic fracking. In addition, extending the production testing period will result in more refined analysis on well production data.

- On May 18, 2016, Pétrolia announced long-term production testing on Haldimand 4 had begun after receiving all of the necessary government approvals. Pétrolia and its partner Québénergie have approved the 240-day long-term test program.

- The Annual Shareholder Meeting was held on May 26, 2016. The shareholders elected Alexandre Gagnon, Jacques Bourgeois, David McCallum, Myron Tétreault, Martin Bélanger and Charles Boulanger as Directors. All other agenda items were also approved, including the ratification of the proposed rolling stock option plan representing no more than 10% of the shares issued by the Company. The Company's shareholders also approved the appointment of Ernst & Young LLP as the Company's auditors. In addition, Pétrolia granted 225,000 stock options to a director and officers of the Company at an exercise price of $0.22 per share, expiring May 25, 2021. Subject to TSX Venture Exchange approval, the Company also wishes to announce the renewal for a five-year period of a lease entered into by the Company with a director pertaining to privately owned land for its Québec operations in exchange for the issuance of 50,000 common shares of its capital. At the meeting of the Board of Directors following the Annual Shareholder Meeting, Karl Mc Lellan announced that he was leaving his position as Chief Financial Officer and Corporate Secretary. The Board of Directors announced Mr. Mc Lellan's appointment to Pétrolia's Board of Directors, effectively continuing his involvement in the Company as a Director. Mr. Mario Racicot, already the Company's Manager of Corporate Affairs, became Pétrolia's Chief Financial Officer and

Corporate Secretary. Lastly, to complete Pétrolia's senior management team, Pétrolia appointed Joannie Proteau as Director of Finance. As a result, she also serves on the Company's Management Committee.

- On June 15, 2016, Pétrolia announced that the Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques (MDDELCC) had issued all of the certificates of authorization necessary, including the permit for hydraulic fracking, in order to proceed with the exploration program contemplated by the agreements that led to the creation of Anticosti Hydrocarbons L.P. Readers are reminded that Pétrolia Anticosti was mandated by the Board of Directors of Anticosti Hydrocarbons to prepare the application for the certificate of authorization, as well as all required documentation and studies relating thereto.

- On June 16, 2016 Pétrolia announced that Ressources Québec inc., acting as an agent of the Government of Québec, invested an additional $8.5 million in the Bourque project. This investment consists of a direct interest in the project through the joint venture created after the first investment phase. The announced investment, combined with that of our partner TUGLIQ Energy Corp., completes the financing for the planned work. With the completion of this financing, Pétrolia owns 51% of the partnership, which it also operates.

- On July 15, 2016, Pétrolia confirmed the closing of the Bourque project's second phase financing by Ressources Québec inc. for a total amount of $8,500,000. This investment consists of a direct interest in the four licences related to the Bourque property, amounting to $2,000,000 in cash $2,000,000 and a $6,500,000 contribution following a call for funds for exploration work financing. With this investment, Ressources Québec inc. obtained 38.88% of the Company's interest in these licences and 1.32% of the interest of TUGLIQ Energy Corp. in these licences. The Company will use the proceeds of this investment to carry out the Bourque exploration program during 2016. Following the completion of this second phase of financing, the interests in the four licences related to the Bourque property amounted to 51.03% for the Company, 45% for Ressources Québec inc. and 3.97% for TUGLIQ Energy Corp.

- On July 15, 2016, Pétrolia confirmed the closing of a private placement and issued 4,629,686 flow-through shares at a price of $0.27 per share for gross proceeds of $1,250,015.22. The proceeds of this private placement will be used by the Company to incur Canadian exploration expenses on the Company's Bourque property located in the Province of Québec and such exploration expenses will be fully incurred on or before December 31, 2017 in accordance with the Company's undertakings to the subscribers of this private placement.

- On July 25, 2016, Pétrolia Inc. issued a comment on the judgment rendered by the Honourable Mr. Justice Castonguay in the action filed by Pétrolia on July 12, 2016 to force its partners, Ressources Québec and Saint-Aubin E&P (Québec) inc. (Saint-Aubin), to fulfil their contractual commitments. First, Pétrolia noted that Justice Castonguay acknowledged the clear obligation of Ressources Québec and Saint-Aubin to finance the exploration program and made orders to that effect. The judgment recognized the operator's financial needs and specifically ordered Ressources Québec and Saint-Aubin to fund the administrative and day-to-day expenses of Pétrolia Anticosti on a monthly basis until May 2017. In addition to these orders, the Court also acknowledged the commitment by Ressources Québec and Saint-Aubin to finance the construction of the drilling platforms. Lastly, the judgment ordered the partners to appoint an independent director within 30 days. Given the preliminary stage of proceedings, Justice Castonguay further decided to defer judgment on the applications for the drilling of three wells scheduled for 2016.

- On August 18, 2016, the Company announced the commencement of resource confirmation work on the Bourque property, consisting of the re-entry and completion of Bourque 1, as well as the drilling and completion of an additional well.

- On August 26, 2016, Pétrolia Inc. announced changes to its management team following Alexandre Gagnon's announcement that he was resigning as President and CEO and as a member of the Board. Pétrolia has begun the process to fill the CEO position. In the meantime, Martin Bélanger will act as interim President and CEO. As a member of the Board of Directors for nearly two years, he is well aware of the issues that drive the Company.

  In connection with these changes, Pétrolia granted 450,000 stock options to Company officers at an exercise price of $0.21 per share, expiring August 25, 2021.

- On September 2, 2016, Pétrolia confirmed the existence of a functional oil reservoir comprising natural fractures on the Haldimand property as well as the termination of the production test on Haldimand 4 that started in May.

- On September 8, 2016, Pétrolia announced the resignation of Jacques Bourgeois, who had been a member of the Board since 2013.

- On September 26, 2016, the Company announced the start of work that enabled drilling of the lateral section of Bourque No. 1. Drilling of the horizontal leg of the reservoir was followed by logging and completion. The lower open hole section of the well has been permanently abandoned through the installation of four cement plugs. Subsequently, the drilling rig was moved a few metres away toward the enlarged portion of the Bourque 1 site in order to drill Bourque HZ No. 3. Once the drilling, electrical logging operations, installation of casing for Bourque HZ No. 3 and completion programs are finished, production tests will be performed for both wells successively to assess the natural production from the Forillon formation.

- On October 27, 2016, the Company confirmed the closing of a private placement and issued 6,077,579 flow-through shares at $0.19 per share for gross proceeds of $1,154,740. The proceeds of this private placement will be used by the Company to incur Canadian exploration expenses in the Province of Québec and such exploration expenses will be fully incurred on or before December 31, 2017 in accordance with the Company's undertakings to the subscribers of this private placement.

- On November 18, 2016, Pétrolia announced that, in accordance with its compensation policy and its retention plan, which is to grant stock options each year to its employees and directors, the Board of Directors granted on November 17, 2016, 1,787,500 stock options to its employees and directors. The price has been set at $0.165 per share, and the expiry date for these options is November 16, 2021. Some of the options vest over a three year period.

- On December 12, 2016, the Company highlighted the passage of *Bill 106: An Act to implement the 2030 Energy Policy and to amend various legislative provisions* adopted by the National Assembly. The adoption of this bill concludes the debate on the lack of regulatory oversight of our activities and returns stability and certainty to the oil industry in Québec.

- On December 23, 2016, the Company announced that the most recent step in the process of verifying the presence of resources on the Bourque property, namely the re-entry and completion of Bourque 1 as well as additional drilling (Bourque HZ No. 3) was completed on time and within the budget. This drilling revealed the presence of gas and oil in the Forillon formation. The completion program for Bourque 1 is now finished. The Bourque Hz No. 3 completion program has been delayed to allow us time to analyze the data collected on Bourque 1 and to finalize the plan for production tests. In the meantime, we installed measuring instruments in the wells in order to continue collecting data and, lastly, the site has been secured for the winter season.

- On January 25, 2017, the Québec government confirmed it would support Anticosti's nomination as a UNESCO World Heritage Site. Several steps are involved prior to selection, including Canadian federal government approval and UNESCO recognition. The outcome of these steps is currently unknown and may not be known for some years. The Company's Board of Directors is studying the impact of the nomination on the Anticosti project and management's judgments concerning the project are summarized in note 4.1 to the financial statements as at December 31, 2016. The press release is available at the following address (French only): http://www.newswire.ca/fr/releases/archive/January2017/25/c5125.html

- On March 17, 2017, the Company confirmed the closing of a private placement and issued 5,222,223 flow-through shares at $0.18 per share for gross proceeds of $940,000. The proceeds of this private placement will be used by the Company to incur Canadian exploration expenses on the Company's various properties located in the Province of Québec and such exploration expenses will be fully incurred on or before December 31, 2018 in accordance with the Company's undertakings to the subscribers of this private placement.

3. COMPANY'S INCORPORATION AND MISSION

Incorporated under Part IA 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 it owns and in which it has an interest. 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. The Company has no intention to update its forward-looking statements which could be included in this report, unless required to do so by law.

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 16,314.39 square kilometres ("km²"), 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 km²) 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.

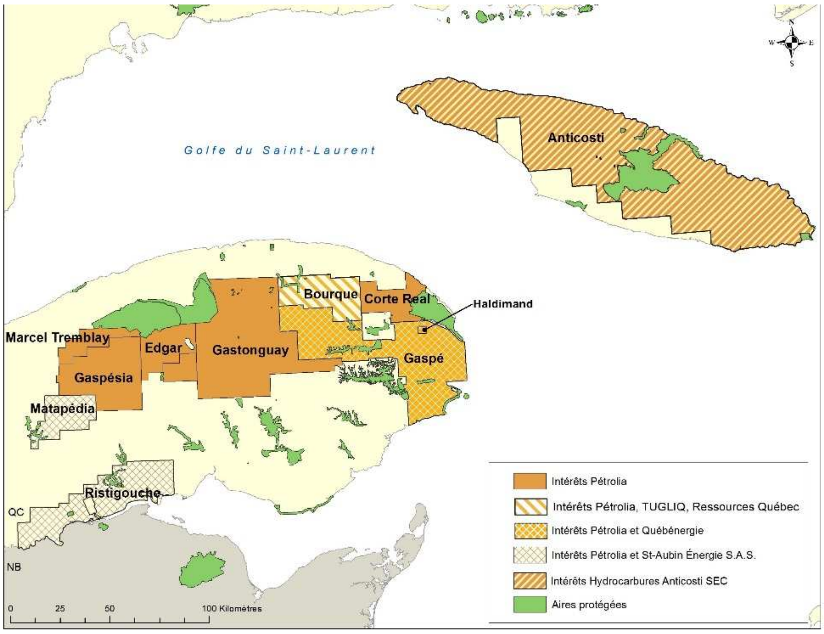
- For the Gaspé licences, Pétrolia and Québénergie each hold a 50% interest in each of the 13 licences, covering a total area of approximately 2,500 km².

- For the Baie-des-Chaleurs–Matapédia and Restigouche 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 covering an area of over 1,800 km².

- As of July 15, 2016, the interests in the four Bourque property licences were as follows: Pétrolia – 51.03%; TUGLIQ Energy – 3.97%; and Ressources Québec – 45%.

- 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.

Production test

- Following cleaning operations in fall 2015, Pétrolia began a 240-day long-term production test in May 2016 and completed it in September 2016. The production test allowed the natural production, without artificial aid, of high quality oil (API 53). During this test, which included periods of production and stoppage, the well produced nearly 1,200 barrels of light oil without a pump. This test also allowed the collection of important data on the permeability and porosity of the formation. It was noted that the formation is not very permeable and that it is a system of mixed porosity.

- As a result, in order to improve the productivity of the formation, Pétrolia and its partner are working on developing a stimulation program that would allow for optimal production of the Haldimand deposit.

Social acceptability

- Since the production test activities were completed, no significant events have been noted.

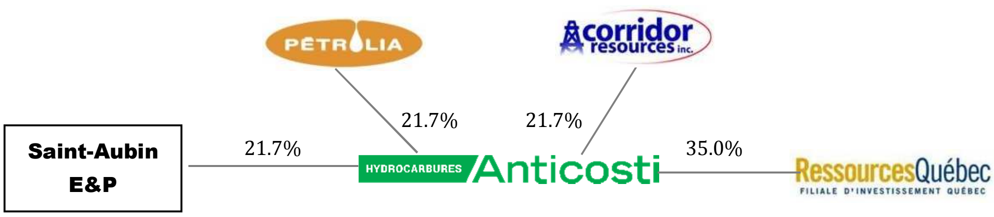
- The Citizens Committee is still in place. A new Company representative was appointed to the Committee. The meeting minutes are available here.

Anticosti project

Background

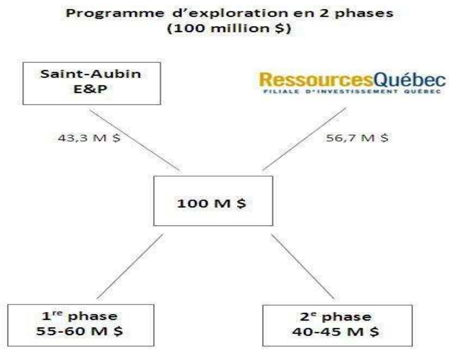
- The main goal of the Anticosti project is to develop the hydrocarbon source rock contained in the Macasty Formation and determine whether this type of deposit can be developed economically. According to Sproule Associates Limited, the best estimate (P50) of the undiscovered total petroleum initially-in-place 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.

- 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 were used, in particular, to identify the best locations for the oil wells to be drilled in 2017.

- 2016-2017:
  During the 2017 campaign, three horizontal wells are scheduled to be drilled with fracturing on the Canard, Jupiter and La Loutre sites.

  Some preparation work for well drilling took place in fall 2016.

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. As at December 31, 2016, exploration expenses incurred on the property amounted to $26,413,491.

Based on Phase I results and a green light from Anticosti Hydrocarbons L.P.'s Board of Directors, a second phase will follow subsequent to the exploration work completed from 2014 to 2017.

Second phase:

- Following the exploration work completed in the first phase, horizontal oil wells will be drilled with fracturing;

  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 expenses borne by contributions from Ressources Québec and Saint-Aubin E&P, subsequent costs will be assumed according to the four limited partners' proportionate interests.

Exploration work completed in 2016

- Since the end of the stratigraphic drilling fracturing campaign completed in fall 2015, our team was busy planning the drilling with fracturing of three horizontal wells. The drilling timeline is being negotiated between the partners.

- In his July 21, 2016 judgment, Justice Castonguay acknowledged the clear obligation of Ressources Québec and Saint-Aubin to finance the exploration program and made orders to that effect. The judgment recognizes the operator's financial needs and specifically orders Ressources Québec and Saint-Aubin to fund the administrative and day-to-day expenses of Pétrolia Anticosti on a monthly basis until May 2017. In addition to these orders, the Court also acknowledged the commitment by Ressources Québec and Saint-Aubin to finance forthwith the construction of the drilling platforms.

- Between September and November 2016, Pétrolia Anticosti, the project operator, prepared the well drilling platforms.
- Under the new timeline, platform construction completion is scheduled for 2017, with well drilling and fracturing also slated for 2017.

Certificate of authorization

- On June 15, 2016, Pétrolia announced that the MDDELCC had issued all of the necessary certificates of authorization, including for hydraulic fracturing, in order to proceed with the exploration program.
- On August 8, 2016, Pétrolia applied to the MDDELCC to amend the certificates of authorization for the Jupiter well. The application for an amendment was solely related to the location of the Jupiter well. This new location will reduce environmental impacts as well as costs. On December 12, 2016, the MDDELCC approved our application for amendment.

Assessment of social acceptability

- Follow-ups are underway with outfitters and suppliers.
- A daily media watch is in place.
- Every month, Pétrolia fields questions and queries from the vigilance and intervention centre for petroleum issues on Anticosti, a citizens committee known by its French acronym, CVIEPA. Follow-ups are carried out periodically.

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).

- Resource confirmation work on the Bourque property, consisting of the re-entry and completion of Bourque 1, as well as the drilling and completion of Bourque 3 began in fall 2016 and will continue in spring 2017.

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 TUGLIQ Energy with the natural resources it needs to supply its industrial clients in the Côte-Nord and Nord-du-Québec regions.

- In 2015, 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 also invested $1,350,000 in the partnership (see the November 4, 2015 press release).

- In July 2016, the Company confirmed the second phase of financing by Ressources Québec inc. amounting to $8,500,000. This investment consists of a direct interest in the Bourque project through the partnership. Upon completion of this second phase of financing, Pétrolia owned 51.03% of the partnership and became the project operator, while its two partners, Ressources Québec and TUGLIQ Energy owned 45% and 3.97%, respectively.

- The proceeds from these investments were spent in part by the Company in 2015 and in 2016 for the re-entry and completion of the Bourque 1 well and completion of a third well. The remaining amount will be spent in 2017 as part of the Bourque exploration program.

Exploration work completed in fall 2016

- For Bourque 1, initially, the lower open hole section of the well was abandoned through the installation of 4 cement plugs at depths of 2,746 m–1,780 m. On September 25, 2016, the drilling of the deviated section was initiated at 1,221 m and progressively to reach 1,641 m (to a true vertical depth (TVD) of 1,509 m), before setting the intermediate casing. The drilling's total measured depth is 3,450 m (1,488 m in TVD). The drilling of the 1,750 m horizontal leg of the reservoir will be followed by logging and completion.

  Subsequently, the drilling rig was moved by 53 metres toward the enlarged portion of the Bourque 1 site in order to drill Bourque HZ No. 3. This new well was drilled vertically to a depth of 1,297 m (TVD). From this depth, the horizontal leg was drilled through the reservoir for a horizontal section of 1,497 m, or a total measured depth (MD) of 3,075 metres.

- Following the drilling, the electrical logging operations were completed, in addition to the installation of casing for Bourque HZ No. 3. Following this work, a unit of coil tubing was mobilized to complete the acidification work on the horizontal leg of Bourque 1, after which a well cleanup was performed in addition to a series of tests. The completion work on Bourque 3 was not completed in time for winter.

- Pressure data loggers were installed in the 2 wells. These instruments will be collected as soon as the site is accessible in spring 2017. The assessment results of the increases in pressure will determine the next steps in exploration.

Social acceptability

- A daily media watch is in place.

- A Citizens Committee was set up in conjunction with the Municipality of Murdochville in August 2016. This Committee consists of three Murdochville citizen representatives, a hunting association representative, a First Nations representative and a representative from La Côte-de-Gaspé RCM, in addition to representatives from Estran. Communication among the Committee members as well as with the Company are frequent, thereby ensuring the monitoring of operations and continuity in information sharing.

Other properties

Other

- Pétrolia reviewed all of its data from its other properties in the Gaspé Peninsula to pinpoint areas with characteristics similar to those found in the Bourque Project and identify high-potential development properties.

COMPANY EXPERTISE

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

All Company worksites employ industry best practices. As a result, every effort is made to reduce environmental and social risks 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, 2016 consisted of $102,283 in project management revenues, compared with $195,046 for the year ended December 31, 2015, and nil in other income compared with $7,166 in 2015. Project management revenues comprise management fees invoiced by the Company as a project operator for exploration work, and the reduction in revenues in 2016 is attributable to the decrease in work performed by Pétrolia Anticosti as appointed operator of Anticosti Hydrocarbons L.P.

For fiscal 2016, the Company generated a net loss of $1,940,510, compared with a net loss of $1,552,635 for the previous fiscal year.

As at December 31, 2016, the Company had cash and cash equivalents of $6,492,198, including $5,703,494 held for exploration purposes, and $1,487,759 in positive working capital.

On March 17, 2017, the Company confirmed the closing of a private placement and issued 5,222,223 flow-through shares at $0.18 per share for gross proceeds of $940,000. In consideration of the services provided in connection with this private placement, finder's fees in the amount of $66,400 were paid in cash and recognized as a reduction of the Company's share capital.

ANALYSIS OF CASH FLOWS

For the year ended December 31, 2016, the Company generated a net loss of $1,940,510, compared with a net loss of $1,552,635 for the year ended December 31, 2015. The Company's operating activities required a capital contribution of $2,567,837 for fiscal 2016 compared with $1,327,807 for fiscal 2015. This difference arises mainly from the reduction in project management revenues, the increase in professional services, letters of guarantee in the amount of $630,000 issued in favour of the Ministère des Ressources naturelles, in addition to the net change in non-cash operating items in 2016.

Cash flows used in investing activities for fiscal 2016 totalled $6,962,932, mainly due to increases in exploration and evaluation costs, net of recovered amounts, of $8,086,655, the disposal of interests in the Bourque project totalling $2,000,000, $600,000 in security deposits, $133,674 in oil and gas property costs, net of recovered amounts, and $138,150 in contributions from associates. For the year ended December 31, 2015, cash flows used in investing activities totalled $4,929,169, mainly due to increases of $4,609,510 in exploration and evaluation costs, net of recovered amounts, $161,272 in oil and gas property costs, net of recovered amounts, and $133,384 in contributions from associates.

Cash flows from financing activities for the year ended December 31, 2016, amounted to $8,500,195, stemming essentially from proceeds totalling $2,110,174 from the issue of 10,707,265 shares, net of issuance costs, and $6,396,630 in advances received from a partner for the Bourque project. For fiscal 2015, cash flows generated from financing activities amounted to $8,540,237 due to the issue of 14,803,500 shares for proceeds totalling $6,278,484, net of share issuance costs, and $2,268,200 in advances received from partners for the Bourque project.

ANALYSIS OF OPERATING AND ADMINISTRATIVE EXPENSES

For the year ended December 31, 2016, operating and administration expenses, net of re-invoiced expenses and amounts capitalized, increased by $157,041, compared with the previous fiscal year, and the Company re-invoiced operating and administration expenses for a total of $667,004 for fiscal 2016, compared with $817,173 for fiscal 2015.

The main differences in operating and administrative expenses before re-invoicing are as follows:

- Salaries and employee benefits - administration expenses: In fiscal 2016, following the departure of a member of key management personnel in November 2015, a release was signed. A $150,000 termination benefit was granted subsequent to this settlement. Further, compared with fiscal 2015, salaries and other benefits decreased over the period following the departure of certain employees.
- Salaries and employee benefits - operating expenses: As at December 31, 2016, the decrease in expenses was due to termination benefits paid to an officer in fiscal 2015.
- Professional services: In fiscal 2016, fees for professional services increased by $260,000 over last year in relation to non-recurring professional fees incurred in the application for an injunction filed in connection with the exploration work of Anticosti Hydrocarbons L.P.
- Rent: The reduction in operating and administration expenses were in line with the decrease in the Corporation's rented space in January 2016, in addition to its move to new premises in August 2016 to reduce expenses.

ANALYSIS OF SHARE OF ASSOCIATES

The Company's share in the net loss of associates for fiscal 2016 totalled $136,453 compared with $143,995 for fiscal 2015.

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:

	2016 $	2015 $
Assets	128,419,917	125,206,675
Liabilities	525,774	1,308,377
Partners' equity	127,894,143	123,898,298
Revenues	—	—
Net loss and comprehensive loss	(629,783)	(664,590)
Share of Pétrolia [21.7%]	(136,453)	(143,995)

SELECTED ANNUAL INFORMATION

	2016 $	2015 $
Revenues (including financial income)	132,237	239,393
Net loss	(1,940,510)	(1,552,635)
Basic net loss per share	(0.020)	(0.019)
Diluted net loss per share	(0.020)	(0.019)
Total assets	91,218,740	89,846,211

SUMMARY OF QUARTERLY RESULTS

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

	December 2016 $	September 2016 $	June 2016 $	March 2016 $
Revenues (including financial income)	67,066	18,732	23,272	23,167
Net loss	(607,055)	(393,719)	(631,901)	(307,835)
Net loss per share				
Basic	(0.006)	(0.004)	(0.007)	(0.003)
Diluted	(0.006)	(0.004)	(0.007)	(0.003)

	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)

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:

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
2016 - May	Recognition of share-based payment of $22,544
2016 - August	Recognition of share-based payment of $39,575
2016 - November	Recognition of share-based payment of $102,164

[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.

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:

	2016	2015
	$	$
Short-term employee benefits:		
Salaries and employee benefits	357,454	735,243
Termination benefit	150,000	—
Director fees	154,435	138,566
Total short-term employee benefits	661,889	873,809
Fees	214,572	120,238
Share-based compensation	142,996	170,261
Total compensation	1,019,457	1,164,308

During the years ended December 31, 2016 and 2015, 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:

	2016	2015
	$	$
Comprehensive loss:		
Other expenses	18,400	17,000

With Anticosti Hydrocarbons L.P.:

	2016	2015
	$	$
Comprehensive loss:		
Project management	35,180	112,893

As at December 31, 2016, Anticosti Hydrocarbons L.P. provided an advance of $458,964 to the Company [December 31, 2015 – $0] to finance exploration activities of subsidiary Pétrolia Anticosti inc. for the first three months of fiscal 2017, which was offset by a provision of $350,000 for a potential liability to be borne by Anticosti Hydrocarbon L.P.

Further, as at December 31, 2015, a contribution of $19,637 [December 31, 2016 – $0] was payable to Anticosti Hydrocarbons L.P., while a contribution of $10,120 [December 31, 2016 – $0] was payable to Anticosti Hydrocarbons General Partner Inc.

As at December 31, 2016, an amount of $475 [December 31, 2015 – $944,309] was receivable from Anticosti Hydrocarbons L.P.

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 $2,894,565 by 2025. The minimum payments required in the next five years are as follows:

2017	2018	2019	2020	2021
$	$	$	$	$
134,359	134,359	175,511	484,286	521,116

The adoption of Bill 18 in Québec suspends some of the 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. On December 9, 2016, Bill No. 106, *An Act to implement the 2030 Energy Policy and to amend various legislative provisions*, was adopted. However, as of the date of these financial statements, Bill 106 and its related regulations are not yet in force. Consequently, the suspended obligation related to the statutory work remains, and the Company may continue its exploration activities.

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, 2016.

Credit risk

The assets that give rise to potential credit risk exposure for the Company consist primarily of cash and cash equivalents, receivables and security deposits. The Company's cash and cash equivalents are held with or are issued by established Canadian financial institutions, while security deposits are made directly to the Government of Québec. Receivables are mostly amounts related to commodity taxes. Management considers the risk of non-recovery to be low.

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 activities by issuing shares, selling interests in some of its oil and gas assets and contracting 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 work.

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-rate financial instruments.

JUDGMENTS, ESTIMATES AND ASSUMPTIONS

See note 4 to the annual consolidated financial statements as at December 31, 2016 for a complete description of the judgments, estimates and assumptions made by management in the preparation of its annual consolidated financial statements.

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, 2016.

CAPITAL MANAGEMENT

For a complete description of the Company's capital management policy, see note 21 to the annual consolidated financial statements as at December 31, 2016.

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, 2016 were as follows:

	Geology	Geophysics	Completion and drilling	Analysis	Fracking	General expenses	Options	Provision	Site maintenance	Total
	$	$	$	$	$	$	$	$	$	$
Anticosti	-	-	-	-	-	2,888	-	26,366	-	29,254
Gastonguay	-	-	-	-	-	-	-	-	-	-
Gaspésia Marcel-Tremblay Edgar	-	-	-	-	-	-	-	-	-	-
Gaspé	81,065	19,171	12,704	-	-	36,008	13,017	32,192	1,241	195,398
Bourque	91,015	20,006	8,627,944	3,520	-	28,937	30,735	147,897	10,328	8,960,382
Haldimand	4,753	501	521,549	11,696	-	56,679	28,153	74,360	108,409	806,100
Tar Point	9,917	-	242	-	-	830	-	16,096	1,637	28,722
Matapédia	-	-	-	-	-	-	1,101	-	-	1,101
	186,750	**39,678**	**9,162,439**	**15,216**	**-**	**125,342**	**73,006**	**296,911**	**121,615**	**10,020,957**

Exploration expenses for the year ended December 31, 2015 were as follows:

	Geology	Geophysics	Completion and drilling	Analysis	Fracking	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	1,675	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**

(c) Regulation 51-102 Section 5.4

Information on shares issued, share options and warrants as at March 28, 2017:

Common shares: 108,399,683 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:

• 1,955,000 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;

• 400,000 options exercisable at a price of $0.98 per share until September 14, 2018;

• 505,000 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;

• 810,000 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;

• 1,735,000 options exercisable at a price of $0.34 per share until November 24, 2020;

• 225,000 options exercisable at a price of $0.22 per share until May 25, 2021.

• 450,000 options exercisable at a price of $0.21 per share until August 25, 2021;

• 1,787,500 options exercisable at a price of $0.165 per share until November 16, 2021;

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

• 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, 2016 and 2015 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 28, 2017

On behalf of the Board of Directors,

(signed) Martin Bélanger
Martin Bélanger
Interim President and Chief Executive Officer

(signed) Mario Racicot
Mario Racicot
Chief Financial Officer and Corporate Secretary