Leader en exploration pétrolière au Québec

**INTERIM MANAGEMENT
DISCUSSION AND ANALYSIS
For the third quarter ended
June 30, 2010**

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INTERIM MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THIRD QUARTER ENDED JUNE 30, 2010

This interim management discussion and analysis is an addition and supplement to the quarterly financial statements and should be read in conjunction with them and the audited financial statements for the fiscal years ended September 30, 2009 and 2008, and the annual management report when required.

This report presents the view of Management on current Company activities and financial results as at June 30, 2010. It also cites significant events that occurred after June 30, 2010 and provides a preview of activities during the coming months.

HIGHLIGHTS FOR THE QUARTER

- Pétrolia has increased its interest from 50% to 100% over an area of 150 km^2 surrounding the Haldimand discovery.

- Confirmation of the best estimate of 7.7 million barrels of recoverable (contingent) oil on the Haldimand property (9 km^2).

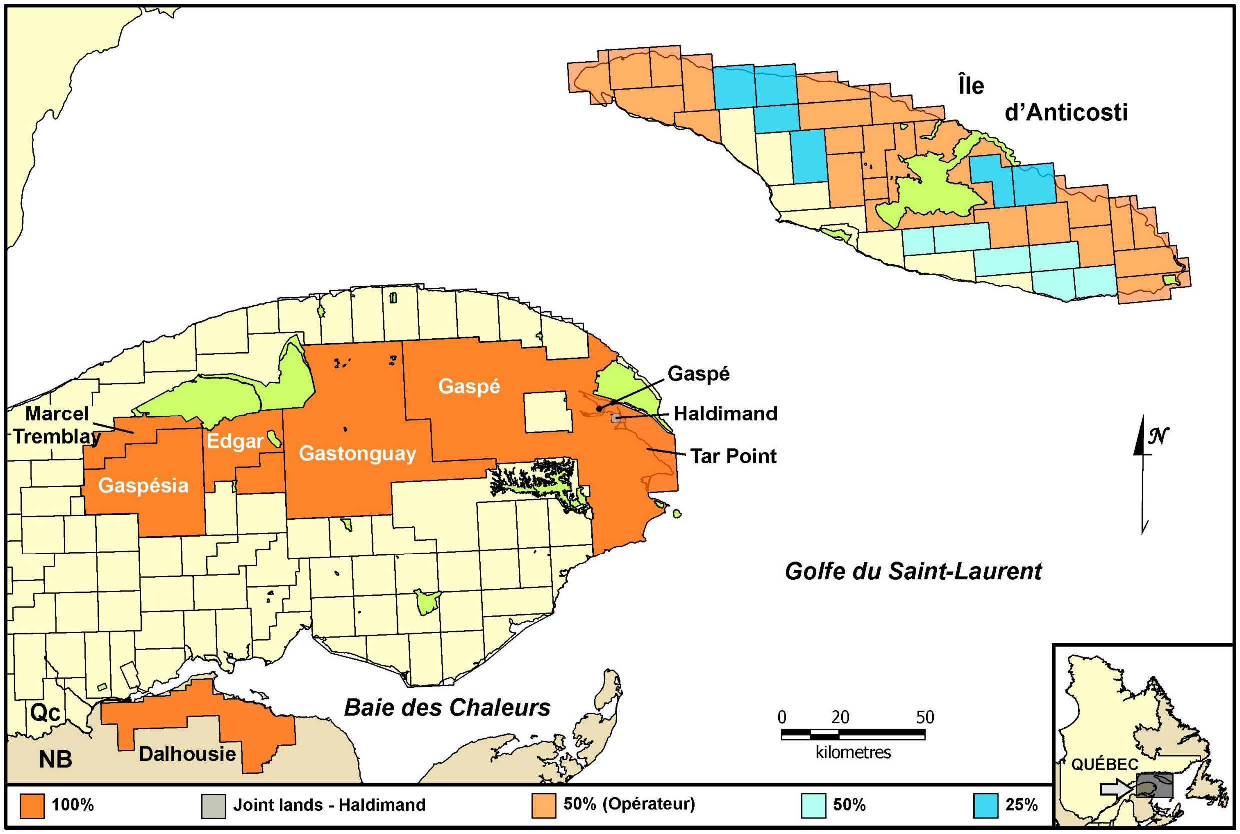
- Signing of an understanding in principle with Investcan Energy regarding the development of Haldimand and the surrounding territory.

- Start of a drilling campaign on Anticosti Island.

PÉTROLIA'S INTERESTS

1.1 DATE

This management report for the three-month period ended June 30, 2010 is dated August 6, 2010.
The following map illustrates the extent of the area over which Pétrolia holds interests.



1.2 Nature of Activities

The Company is incorporated under Part 1A of the Quebec Companies Act. It has been listed on the TSX Venture Stock Exchange since February 16, 2005. The companyô s primary activities are the exploration and development of its oil and gas properties are the Companyô s primary activities. In addition, to achieve its objectives, the Company has entered into various partnership agreements characteristic of the oil and gas industry.

1.3 Forward-looking Statements

Some statements contained in this report are forward-looking statements. These statements include some risks, uncertainties, and other known and unknown factors that can cause the actual results to differ considerably from those that had been projected in the forward-looking statements. The Company is of the opinion that the forecasts reflected in these forward-looking statements are founded on reasonable assumptions but in no way guarantees that these forecasts will turn out to be accurate.

1.4 Strategy and Outlook

The Companyô s strategy primarily involves discovering oil reserves and putting them into production as quickly as possible, and to do so under sound conditions of profitability and safety for people and the physical environment. Pétrolia achieves its objectives by holding rights over promising licences and signing agreements with experienced partners. Furthermore, the Company implements the best drilling techniques and installs wells on the basis of scientific and technical knowledge. Particular attention is also paid to relations with the communities where the Companyös work is carried out.

The discovery of the Haldimand deposit was a result of the Companyös efforts in this vein. Putting this unconventional oil deposit into production holds certain technical challenges. Thus, the Company is currently working to determine the production mode best suited to this deposit. When it enters into production, Haldimand will become the leading commercial oil operation in Quebec.

In its efforts to develop the Haldimand project, the strategy developed by Pétrolia aims to:

- expand its interest in the area surrounding the discovery;
- determine the importance of the discovery and validate the evaluation of the resource by an independent expert;
- identify potential partners and sign an agreement with one of these;
- begin producing from the Haldimand deposit.

In its search for a partner, Pétrolia wanted to ensure that certain principles are observed, such as:

- the partner possesses the technical expertise and the financial capacity required for the development of the project;
- the partner shares Pétroliaös concerns with regard to the environment and the community;
- Pétrolia can pursue its development and maintain its leadership in the exploration of its licences;
- Pétrolia maintains significant involvement in the production of the resources discovered.

During the third quarter, several stages of this strategy have been completed. Pétrolia and its new partner, Investcan Energie, can now proceed to the development phase to put Haldimand into production.

Anticosti Island is also a priority because of its recognized potential. With its partner Corridor Resources Inc., Pétrolia identified potential targets to carry out new drilling work there. Three of these have been retained for the drilling campaign that is currently in progress.

Pétrolia is therefore at the exploration stage but is producing the Haldimand deposit on an experimental basis. Revenues during this quarter come mainly from interest and production tests revenues ($39 997). Its financing is still ensured through issuance of shares of its capital, tax credits arising from current tax rules in Quebec, and agreements entered into with its partners.

During the quarter, the Company did exploration work for $849,308 compared with $275,077 for the corresponding quarter of 2009. For the third quarter it incurred a loss of $244,544 ($0.0053 per share), compared to a loss of $135,103 ($0.0033 per share) for the same quarter in 2009.

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

1.5 EXPLORATION WORK

The York River Formation

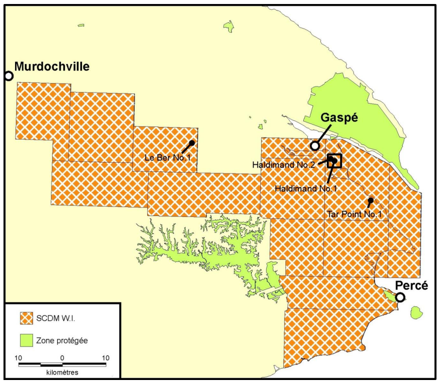
Since the start of its operations, Pétroliaös priority has been to search for reservoirs that have accumulated commercially producible quantities of oil in the York River Formation. The Haldimand discovery confirms the soundness of this choice. The licenses held by the Company cover more than 80% of the prospective portion of this formation on the Gaspé peninsula. The Haldimand and Tar Point projects are part of this approach.

1.5.1 Haldimand Project

The work carried out has shown that the Haldimand deposit is unconventional in type, and has some similar characteristics to the Bakken deposits in the north-central United States. Although this type of deposit is popular in North America, extracting its oil requires more time and a different technique.

New Partnership

The Company completed a decisive step toward putting the deposit into production with the July 22, 2010 announcement of an understanding in principle with Investcan Energie (see press release).



When the definitive agreements are signed, and in exchange for $15 M ($6.5 M in cash and $8.5 M in future work), Investcan Energie will acquire 50% of Pétroliaôs interests in the Haldimand discovery, as well as in 13 licences that surround this discovery.

This understanding confirms Pétroliaôs role as operator in the exploration work. Investcan Energie, which has recognized expertise and experience in production, will become the operator when the deposit moves to the development phase. The understanding adheres to the Companyôs priorities of maintaining control and developing its expertise in exploration, while retaining significant participation in the production of resources that it identified. This choice of partner is also explained by the two companiesô shared value of respect for the physical and social environment. This partnership reflects the Companyôs desire to ensure that the development of our energy resources goes hand in hand with the interest of Quebec.

Investcan Energy is a wholly-owned subsidiary of SCDM Énergie, which in turn is a wholly-owned subsidiary of SDCM, a privately-held French company based in Paris and controlled by Martin and Olivier Bouygues. SCDM is the largest shareholder in the Bouygues Group (18.6% as at December 31, 2009).

<u>Resource Estimate</u>

The Company received an audit from Spoule Associated Limited (press release of July 10, 2006), a firm specializing in resource evaluation, that confirms Pétroliaôs calculation of the oil located there and of its recoverable (contingent) portion. Thus, on the basis of the data known on December 31, 2009, and limited to the 9 km^2 that constitutes the Haldimand property, Sproule confirms an oil volume initially in place of 69.7 million barrels, of which the recoverable (contingent) portion is 7.7 million barrels. Sproule also specified that the seismic data acquired suggest that the structure extends beyond the perimeter of the initial understanding and as a result, the quantities could be greater.

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

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

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

Agreement Regarding the Area Surrounding Haldimand

On June 9, 2010 (see press release), Pétrolia announced the conclusion of an agreement with Junex according to which it now holds 100% of the interests on the 150 km^2-area that surrounds the Haldimand discovery. This agreement ensures Pétrolia control of all interests over the area where the Haldimand structure extends. In consideration of which, Pétrolia surrendered the interests that it held on an equivalent area, as well as the 10% interest that it held in a license located in the St. Lawrence Lowlands, since Utica shale does not represent a priority for the Company

In addition to the fact that the extent of the acquired area ensures coverage of the whole structure, it also offers a potential for discovery since the York River Formation, which is the priority objective of the Company in this region, appears throughout.

Production Tests

Finally, Pétrolia initiated, on June 30, 2010, a production test on the Haldimand No.1 Well. This test will enable the collection of additional information on the deposit and its characteristics that will help determine future work.

The data gathered will also contribute to the understanding of this unconventional reservoir of the York River Formation. This contribution could also prove to be important for the development of other reservoirs within this formation.

SUMMARY: HALDIMAND

Surface area	900 hectares
Exploration costs as of June 30, 2010	$9,083,897
Partnership	• Pétrolia 65%, Junex 35% ï over 9 km^2 • Pétrolia became operator for the Haldimand Project on July 30, 2009 • Pétrolia acquired 100% interest on an area of 150 km^2 surrounding the Haldimand structure • Understanding in principle with Investcan Energie which, in exchange for $15 million, will acquire 50% of Pétroliaôs interests in Haldimand and 13 licenses
Achievements	• Acquisition of seven seismic surveys in 2005, with a total length of 34 km • Drilling of Pétrolia-Haldimand No. 1 in 2005 • 3-D seismic campaign in 2008, covering 13 km^2 • Soil-geochemistry survey in 2008 • Gravimetric survey in 2009 to refine the current models • Drilling of Pétrolia-Haldimand No. 2 in 2009 • Additional completion work and production test at the Pétrolia-Haldimand No. 1 Well • Completion work and production test at the Haldimand No. 2 Well
Work in progress	• 60-day production test on Haldimand No. 1
Proposed work	• Drilling and stimulation permitting optimization of well productivity

1.5.2 Tar Point No. 1 Project

- The completion work began on January 15, 2010 and ended on February 15. This work mainly involved the Indian Cove limestones, which were perforated and then stimulated with acid.
- Downhole pressure recorders were installed on February 1, 2010 and removed from the well on March 27, 2010.
- The production and pressure data are currently being studied by the Calgary-based Petro Management Group.

SUMMARY: TAR POINT NO. 1

Surface area	53,759 hectares
Exploration costs as of June 30, 2010	A$4,781,290
Partnership	Covered by the understanding in principle with Investcan Energie
Achievements	• Soil-geochemistry survey in 2008 • In 2008, acquisition of five seismic lines with a total length of 57 km, including a portion in the sea • High-resolution 550-km^2 airborne magnetic survey to extend the government surveys to the east • Gravimetric survey in 2009 preliminary to a data inversion to define the top of the York River • Drilling of the Pétrolia Tar Point No. 1 Well • Completion work on the well and production test
Work in progress	• Assessment of the results of the production test and consultations on the stimulation strategy
Proposed work	• Fracturing and initiation of production at the Pétrolia Tar Point No. 1 Well, based on the results of work on Haldimand

1.5.3 Bourque Project (West Point Reefs Formation)

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

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

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

Unfortunately, the difficult economic climate in 2009 did not allow Pilatus to meet the obligations foreseen in the agreement concluded with Pétrolia. The parties agreed mutually to terminate the obligations of the partners stated in the initial understanding in exchange for a 5% interest in the project being granted to Pilatus.

As a result, Pétrolia has resumed an active search for a new partner to develop the project.

SUMMARY: BOURQUE

Surface area	Å74,267 hectares
Exploration costs as of 30.06.10	Å$3,579,655
Partnership	Å95% Pétrolia, 5% Pilatus Energy Canada ÅSearching for a partner
Achievements	• Purchase and interpretation of old seismic data • Acquisition of 3-D seismic data (65 km²) in 2008 • Maturation study on organic matter • Interpretation and evaluation of the results of the 3-D seismic survey • Definition of two targets for drilling
Work in progress	• None
Proposed work	• Planning of a drilling campaign

1.5.4 Other Properties

The Haldimand discovery led Pétrolia to concentrate its efforts on developing that deposit, with a view to putting it into production as quickly as possible. Significant sums have also been dedicated to the drilling campaign in progress on Anticosti Island. The resources available to Pétrolia were consequently devoted on a priority basis to that project, thereby leading to a reduction in activities on its other properties. Pétrolia is considering the possibility of carrying out certain geophysical work on those properties, perhaps during the current year.

1.5.5 Anticosti Island

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

The work carried out by Pétrolia and its partner in this area has identified a number of targets for drilling, four of which have been retained for the drilling campaign currently in progress. However, following significant costs overruns, the parties agreed recently to reduce to three the number of boreholes in order to observe the established financial scope of the program. The main objective of this work is to explore the oil potential of the carbonates of the Trenton and Black River groups in the central and eastern sectors of the island. The exploration model targeted by this drilling campaign has been very successful in the Appalachian Basin (Ontario and New York State).

The drilling of the Jupiter structure is the first of these. Two other boreholes (Chaloupe, Saumon) will be drilled there also during summer 2010. Work should continue until the end of September.

Pétrolia and its partners have selected the horizontal drilling technique and the use of coiled tubing, which is a first for this region. This technique, considered to be better suited to the nature of the Anticosti Island structures, both increases the production capacity of the well, in case of discoveries, and improves the chances of intersecting productive zones.

The partners have also agreed to take a core sample at the level of the Macasty Formation in one of the three wells that will be drilled. This operation aims to determine the oil potential of the argillaceous schists of the Macasty (equivalent to Utica shale). According to the partnersô assessment, this shale, which extends at the sub-surface level over the entire area of Anticosti Island, could contain very significant quantities of oil.

Anticosti Island comprises a vast area that is highly prospective but relatively little explored. The island's geology consists of rocks whose composition and age are similar to those in producing areas of the northeastern United States. The island's geology also resembles that of the Saint Lawrence Lowlands, where interesting discoveries have also been made, including the one at St-Flavien in hydrothermal dolomites. A good source rock is present on the island, and analyses of organic matter from boreholes show that it has generated large quantities of petroleum. Shell has already given a figure of 30 billion barrels for the quantity of oil produced by this source rock over the history of this sedimentary basin. Moreover, porous zones and shows of petroleum have been encountered during previous drilling. Several structures have been identified from the seismic carried out on the island. These are favourable to hydrothermal dolomitization and are likely to have trapped a portion of the oil generated by this source rock.

The licences jointly held by Pétrolia and Corridor Resources cover almost all of the area that is prospective for petroleum. The Anticosti property is particularly interesting for Pétrolia because exploration has reached the drilling stage, with several targets ready for drilling. The Company can therefore hope for medium-term results, since Pétrolia and Corridor Resources are performing some drilling there in the summer of 2010. Pétrolia also continues to analyze and interpret the seismic data of Shell and Hydro Quebec, as well as the borehole data, in order to define and develop new exploration plays.

SUMMARY: ANTICOSTI

Surface area	• 638,106 hectares
Exploration costs as of June. 30, 2010	Å$1,500,034
Partnership	• Leases acquired in 2007 • Pétroliaĉs interest from 25% to 50% • Corridor Resources Inc.
Achievements	• Interpretation of seismic lines and available drilling data • Soil-geochemistry survey (adsorbed gases and microbial analysis) carried out in 2008 over the whole island (1,700 samples) • Interpretation of the Shell and Hydro-Quebec seismic data • Incorporation of the drilling data into modern composite logs • Evaluation of the Shell Jupiter No. 1 and Shell Roliff No. 1 wells • Characterization survey of the organic matter of three wells already drilled on the island • Planning of a drilling campaign and determination of the sites
Work in progress	3 wells (Jupiter, Chaloupe, and Saumon)
Proposed work	Evaluation of the drilling work done in the summer of 2010

1.5.6 Dalhousie Project

According to geochemical studies, northern New Brunswick presents a potential mainly for natural gas. In 2007, Pétrolia seized the opportunity to acquire exploration licences totalling close to 500 km^2 in this part of the province. Results from the seismic programs carried out on the Dalhousie property in 2008 and 2009 were sufficiently encouraging that Pétrolia is now planning to drill there. The surveys have demonstrated the presence of several large-scale anticlinal structures that could form potential traps. Core from a mining drillhole also indicated a potential for porous, highly-fractured reservoirs. Moreover, the seismic study suggests the presence of a gas/liquid interface at a depth of 1,400 m in one of these structures.

The target structure could, in the case of a discovery, provide a significant volume of gas. This gas could then supply local companies, and possibly a wider market if the necessary infrastructure were in place.

However, Pétrolia suspended the project last fall to allow time for the resolution of a number of questions related to the marketing of the gas potentially contained in the structures identified. The Company is continuing its search for partners with the goal of pursuing its work and possibly drilling an exploration well.

SUMMARY: DALHOUSIE

Surface area	• 49,493 hectares
Exploration costs as of June 30, 2010	Å$1,109,848
Partnership	• 100% Pétrolia • Search for a partner
Achievements	• Leases acquired in 2006 and 2008 (235 km^2), 100% owned by Pétrolia • A report published by the Geological Survey of Canada in 2005 acknowledged the region's oil and gas potential • Acquisition of a gravimetric survey in 2008 • Three-dimensional (3-D) modelling of the potential fields shows the extent of the target structure • Acquisition of 2-D reconnaissance seismic sections in 2008, over a total length of 39 km • Acquisition of 29 km of 2-D seismic in 2009
Work in progress	• None
Proposed work	• Drilling of an exploration well

1.6 OPERATING RESULTS AND CASH POSITION

For the third quarter, the Company's revenues were primarily made up of production test revenues of $39,997 and interest revenue on short-term investments of $7,345, compared with $64,233 for the 2009 period. The 2009 revenues included interest on short-term investments and interest on accounts receivable from a partner.

As at June 30, 2010, the Company had cash and cash equivalents of $3,805,937, a decrease of $283,070 since March 31, 2010. The operating and exploration disbursements less the tax credits received during the period explain this decrease.

As at June 30, 2010, working capital was positive at $5,676,986, which will allow the Company to continue its exploration projects.

1.7 COMMITMENTS

Under the terms of exploration licences granted by Quebecôs Ministry of Natural Resources and Wildlife and New Brunswickôs Ministry of Natural Resources, the balance of the fees that the Company has agreed to pay to them is $726,084 by 2014. In addition, the Company must perform work on its properties in Quebec on a yearly basis, with minimum costs varying according to the age of the licences;

therefore, they correspond to $0.50 per hectare for the first year of the licence and increase annually by $0.50, ultimately reaching $2.50 per hectare beginning with the fifth year. The minimum amount of work required by Quebec and New Brunswick, net of exploration work already carried out, is $0 in 2010, $543,000 in 2011, and $595,000 in 2012.

1.8 ANALYSIS OF GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the quarter totalled $382,287, compared to $312,335 in 2009. The main differences are caused by attorney services related to agreements with partners and by increased salaries related to an increase in the number of employees.

1.9 SUMMARY OF QUARTERLY RESULTS

	2010		2009				2008	
	June $	March $	December $	September $	June $	March $	December $	September $
Revenue	47,342	6,646	18,772	46,759	66,186	27,921	63,778	129,439
Net earnings (Net loss)	(244,544)	(402,692)	(381,236)	386,447	(135,103)	(456,584)	(649,671)	(2,193,065)
Net earnings (Net loss) (per share)								
Basic	(0.0053)	(0.0092)	(0.0092)	0.0095	(0.0033)	(0.0112)	(0.0159)	(0.0623)
Diluted	(0.0053)	(0.0092)	(0.0094)	0.0073	(0.0033)	(0.0112)	(0.0159)	(0.0623)

The revenue consists of interest earned and revenue from project management and production tests. General and administrative expenses are relatively stable from one quarter to another. The main changes in quarterly losses or profits are explained as follows:

2008 ï September	Stock-based compensation of $461,325 and an unrealized loss of $1,380,000 on a long-term investment recorded.
2008 ï December	Unrealized gain of $540,000 on an investment recorded.
2009 ï March	Capital tax of $164,124 for fiscal years 2006, 2007, and 2008, which the Company disputed through a notice of objection to the Minister of Revenu du Québec, and an unrealized loss of $180,000 on an investment recorded.
2009 ï September	Unrealized gain of $200,000 on an investment and future income taxes of $542,000 recorded.
2009 ï December	Unrealized loss of $458,500 on an investment and a gain on disposal of shares of $395,163 recorded.
2010 ï March	Stock-based compensation of $183,600 recorded.

1.10 <u>RELATED-PARTY TRANSACTIONS</u>

During the quarter, a company (Gestion LesTrois Inc.) in which one of Pétroliaœs directors holds a minority interest billed the Company for rent for a location in the amount of $2,214 (2009 ï $2,142).

Also during the quarter, another company (Géominex Inc.) in which one of Pétroliaœs directors holds a minority interest billed the Company for exploration expenses in the amount of $1,411 (2009 ï $2,300). As at June 30, 2010, $33,983 is due from these companies (2009 ï $186,823).

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

	2010 **$**	**2009** **$**
Salaries and fringe benefits	20,169	56,270
Office supplies	500	932
Telecommunications	1,339	1,535

A sum of $12,119 is due to this company as at June 30, 2010 (2009 ï $17,444).

Transactions were carried out with a company (Seisserv Inc.) whose majority shareholder is a director of Pétrolia. The exploration work billed to the Company for the quarter amounted to $5,648 (2009 ï $4,242). Nothing is due as at June 30, 2010 (2009 ï $3,360).

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

1.11 <u>ACCOUNTING STANDARDS</u>

Readers are asked to refer to Note 3 in the financial statements dated September 30, 2009, for a detailed description of the accounting standards.

1.12 <u>NEW ACCOUNTING STANDARDS</u>

Financial Instruments ï Disclosures

In June 2009, the CICA amended the Handbookôs Section 3862, ñFinancial Instruments ï Disclosuresò (ñSection 3862ò), in order to adopt changes recently made by the IASB to international financial reporting standard 7, Financial Instruments: Disclosures (ñIFRS 7ò) in March 2009. These changes apply to companies that have a public accountability obligation as well as to closely held companies, cooperative enterprises, rate-regulated enterprises, and non-profit organizations that have decided to adopt Section 3862. The changes were made in order to include additional disclosure obligations involving valuations of financial instrument fair value and to expand the disclosure obligations regarding liquidity risk.

The changes took effect for the annual financial statements for fiscal years ended after September 30, 2009. In order to ease the burden on preparers and for the sake of consistency with IFRS 7, the CICA decided that, in the first year of application, entities would not have to disclose comparative information for the information required under the changes. The adoption of Section 3862 had no impact on the amounts recorded in the Companyôs financial statements as at June 30, 2010.

Financial Instruments ï Recognition and Measurement

In August 2009, the CICA amended Section 3855, ñFinancial Instruments ï Recognition and Measurementò (ñSection 3855ò), by adding and modifying paragraphs pertaining to the categorization of financial assets and to financial assets having lost value and by providing particular transitional guidelines. On October 1, 2009, the Company adopted the changes to Section 3855. Their application had no significant impact on operating results or the Companyôs financial position.

1.13 <u>FUTURE ACCOUNTING STANDARD</u>

IFRS Convergence

In February 2008, the ASB confirmed that Canadian GAAP for publicly accountable enterprises will be replaced by the IFRS. The IFRS rely on a conceptual framework similar to that of Canadian GAAP, but there are significant differences in terms of recognition, evaluation, and disclosures.

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

Training

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

Affected Accounting Standards

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

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

Initial Adoption (IFRS 1)

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

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

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

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

Accounting method	Main differences in accounting treatment	Potential impacts
Provisions and contingent liabilities	IFRS require the recording of a provision if it is more likely than not that an outflow of resources will be necessary to settle the obligation, while Canadian GAAP use a higher threshold. IFRS also require that a provision be recorded in the case of onerous contracts, while according to GAAP, the recording of such a liability is only required in certain situations.	Opening balance sheet and after the transition: We have not finished our evaluation. It is possible that additional provisions will be recorded according to IFRS.

Income tax	The various accounting method modifications according to IFRS will also have an impact on the corresponding deferred tax asset or liability, unless a reduction of value is required.	Opening balance sheet: No significant impact is expected. No short-term deferred taxes. After the transition: The impact will depend on the net effect of all of the differences between the accounting methods.
	The tax consequences of a transaction recorded in other comprehensive income or directly in shareholdersô equity during previous periods must be recorded directly in other comprehensive income or directly in shareholdersô equity (ñretrospective researchò). According to Canadian GAAP, any subsequent variation of deferred taxes is charged against earnings.	Opening balance sheet: No significant impact is expected. After the transition: The impact on earnings will depend on the extent of the variations in deferred taxes that will be recorded in other comprehensive income or directly in shareholdersô equity.

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

Information Systems

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

Internal Controls

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

Impact on Commercial Activities

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

Business processes will be monitored during 2010 in order to detect impacts not identified during our initial analysis.

1.14 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Risk Management Policy
Through its financial assets and liabilities, the Company is exposed to various risks. The following analysis provides an assessment of the risks as at June 30, 2010, the date of the balance sheet:

Credit Risk
Financial instruments that potentially subject the Company to credit risk consist primarily of cash and cash equivalents and accounts receivable. The Companyø cash and cash equivalents are held with or issued by first-class financial institutions. Receivables mostly represent sums due from the governments and related parties. Therefore, Management considers the risk of non-performance on these instruments to be very minimal.

Maximum Exposure to Credit Risk:

	2010 $	2009 $
Money market fund	3,440,735	6,463,248
Receivables	1,615,629	2,011,465
Cash	365,202	115,157
	5,421,566	8,589,870

Market Risk
The Company is also exposed to fluctuations in hydrocarbon and gas prices, as they influence the potential profitability of the oil properties held by the Company and therefore have an impact on its exploration plan and any decision whether to proceed with production.

Liquidity Risk
Liquidity risks are the risks that the Company would be unable to cope with its financial obligations at the required times or could only do so at excessive cost. The Company finances its growth through the issuance of shares. One of Managementôs main financial objectives is to maintain an optimal level of liquidities by actively managing the exploration work to be performed.

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

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

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

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

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

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

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

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

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

Level 2 ï valuation techniques based on data other than the listed prices referred to in level 1 observable for assets or liabilities directly (prices) or indirectly (price derivatives).

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

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

The fair value of financial instruments is summarized as follows as at June 30th:

	2010		**2009**	
	Book value $	**Fair value $**	**Book value $**	**Fair value $**
Financial assets				
Held for trading:				
Cash and cash equivalents	3,805,937	3,805,937	6,578,405	6,578,405
Loans and debts:				
Receivables	1,615,629	1,615,629	2,011,465	2,011,465
Financial liabilities				
Other liabilities:				
Trade and other payables	759,128	759,128	132,163	132,163

1.15 ADDITIONAL INFORMATION

a) Supplemental documents

Certain supplemental documents, including prior management reports and press releases, are available online at www.sedar.com in the documents section or on Pétroliaôs Web site at: **www.petroliagaz.com**.

b) Rule 51-102 Section 5.3

The deferred exploration expenses for the quarter ended June 30, 2010, are detailed as follows:

	Geology	Analysis	Geophysical surveys	Drilling	Completion	Supervision	Total
	$	$	$	$	$	$	$
Anticosti	67,314	-	15,866	49,575	-	819	133,574
Gastonguay	1,713	-	-	330	-	-	2,043
Gaspésia-Edgar-Marcel-Tremblay	10,188	-	104	-	-	-	10,292
Gaspé	640	-	4,065	(1,369)	2,424	187	5,947
Gaspé Bourque project	1,960	-	-	3,278	5,058	516	10,812
Gaspé Haldimand project	13,777	603	9,144	112,843	310,533	94	446,994
Gaspé Tar Point project	534	603	-	977	231,546	-	233,660
Dalhousie (New Brunswick)	5,304	-	348	-	334	-	5,986
	101,430	1,206	29,527	165,634	549,895	1,616	849,308

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

The deferred exploration expenses for the quarter ended June 30, 2009, are detailed as follows:

	Geology $	**Geophysical surveys** $	**Drilling** $	**Options-based compensation** $	**Total** $
Anticosti	19,516	13,504	76	507	33,603
Gastonguay	1,057	-	-	-	1,057
Gaspésia-Edgar-Marcel-Tremblay	6,351	189	-	-	6,540
Gaspé	22,478	426	-	5,432	28,336
Gaspé Bourque project	11,405	2,360	1,537	-	15,302
Gaspé Haldimand project	53,419	36,320	31,361	-	121,100
Gaspé Tar Point project	-	-	2,120	-	2,120
Dalhousie (New Brunswick)	40,101	17,995	7,737	1,186	67,019
	154,327	70,794	42,831	7,125	275,077

c) <u>Rule 51-102A-Section 5.4</u>

Information on shares issued, warrants, and stock options as at August 6, 2010:

<u>Common shares</u>: 50,067,287 common shares have been issued and are outstanding.

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

Å3,333,332 shares at a price of $1.50 per share until December 6, 2010
Å2,163,161 shares at a price of $1.30 per share until December 4, 2011
Å1,750,000 shares at a minimum price of $1.00 per share until October 10, 2012
Å3,000,000 shares at the minimum price of $1.00 per share until January 10, 2013.

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

Å675,000 options exercisable at a price of $0.40 per share until February 3, 2011
Å150,000 options exercisable at a price of $0.58 per share until May 10, 2011
Å50,000 options exercisable at a price of $0.74 per share until May 21, 2012
Å662,500 options exercisable at a price of $0.40 per share until June 21, 2012
Å400,000 options exercisable at a price of $0.60 per share until February 12, 2013
Å150,000 options exercisable at a price of $0.60 per share until March 3, 2013
Å427,500 options exercisable at a price of $1.25 per share until July 7, 2013
Å180,000 options exercisable at a price of $0.74 per share until May 21, 2014
Å270,000 options exercisable at a price of $0.89 per share until February 25, 2015.

1.16 MANAGEMENTôS RESPONSIBILITY FOR FINANCIAL INFORMATION

The quarterly financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles and have been reviewed by the audit committee and approved by the board of directors. The financial statements include certain amounts that are based on the use of estimates and judgments. Management has reasonably determined these amounts to ensure that the financial statements are presented faithfully in all respects.

Rimouski, August 6, 2010

On behalf of the Board

(signed) *André Proulx*

André Proulx
President