Leader en exploration pétrolière au Québec

INTERIM MANAGEMENT DISCUSSION AND ANALYSIS
For the Third Quarter Ended June 30, 2011

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INTERIM MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THIRD QUARTER ENDED JUNE 30, 2011

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, 2010 and 2009, and the annual management report when required.

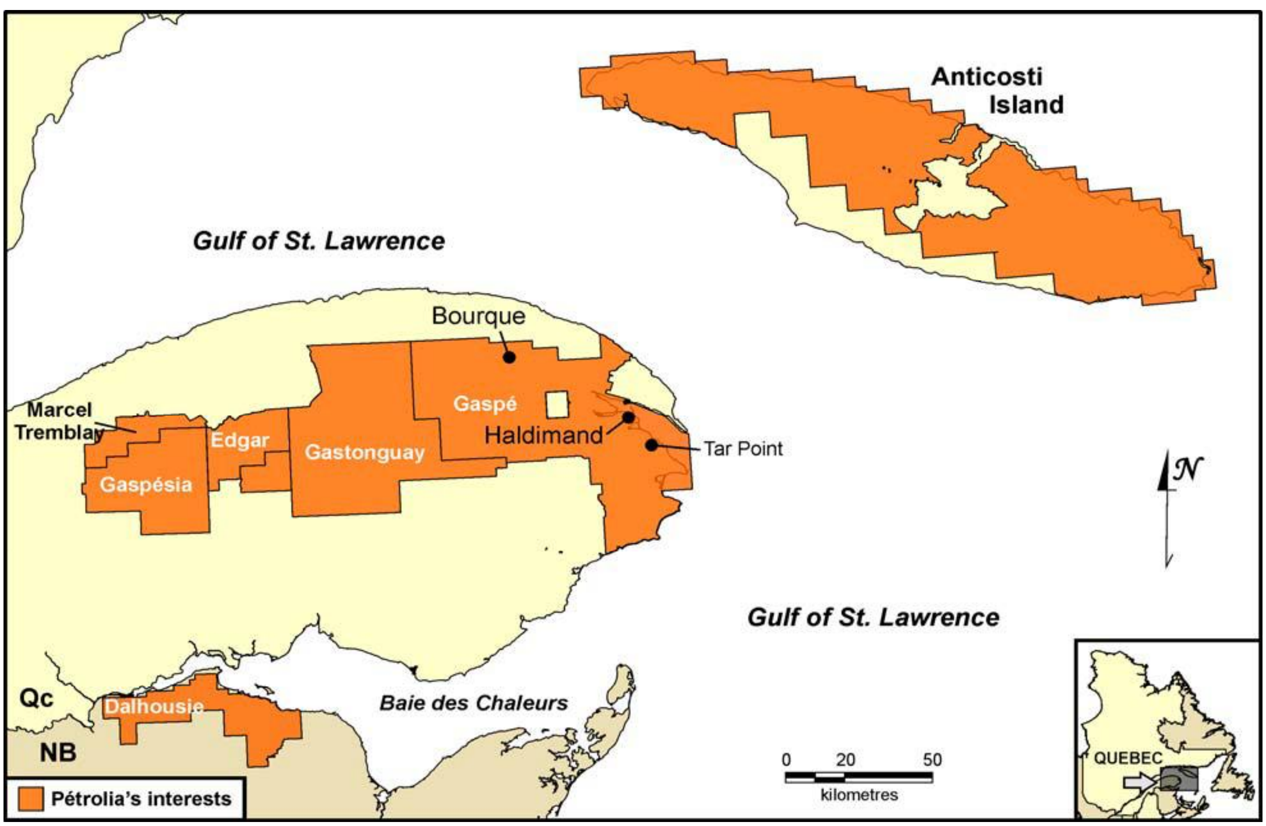
This report presents the view of Management on current Company activities and financial results as at June 30, 2011. It may also cite significant events that occurred after June 30, 2011 and provides a preview of activities during the coming months.

1- DATE

This management report for the three-month period ended June 30, 2011 is dated August 8, 2011.

2- PÉTROLIA'S INTERESTS

The licenses held by Pétrolia as well as those in which it holds interests cover a territory of approximately 14,000 km^2. The map below illustrates these territories.



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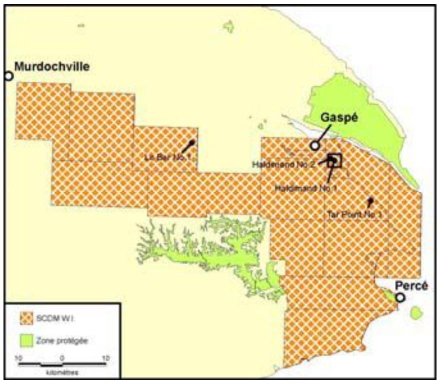
Pétrolia has entered into a partnership agreement with Québénergie, a subsidiary of SCDM (Paris), to speed up development of the Haldimand deposit and surrounding territory (± 2,500 km^2). Each partner holds a 50% interest in the territory covered by the agreement, which is indicated in the map below.



Pétrolia also holds interests in 35 licenses covering a territory of over 6,000 km^2 on Anticosti Island. The Company's interest share is 25% in six of these licenses, and 50% in the remaining 29. Corridor Resources Inc. holds the remainder of the interests.

3- HIGHLIGHTS FOR THE QUARTER

- Release of the first quantitative resource assessment of the Macasty shale oil potential on Anticosti Island, which establishes the volume of undiscovered petroleum initially in place at over 30 billion barrels (see the press release dated June 29, 2011);
- Continuation of various analyses in collaboration with outside firms, including the assessment of the Haldimand deposit and the best options for bringing it into production;
- The entry into force of two new regulations regarding exploration activities;
- Adoption of the *Act to limit oil and gas activities*;
- The exercise of warrants, enabling the company to collect the sum of $3,286,707 in July 2011.

4- NATURE OF ACTIVITIES

The Company, incorporated under the Quebec *Business Corporations Act*, is an oil and gas exploration company. It has been listed on the TSX Venture Exchange since February 16, 2005 under the symbol PEA.

The Company's primary activities are the exploration and development of its oil and gas properties. To achieve its objectives, the Company has entered into various partnership agreements characteristic of the oil and gas industry.

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5- FORWARD-LOOKING STATEMENTS

Some of the declarations made in this report may constitute forward-looking statements. These statements concern future events or Pétrolia's anticipated economic results, and as a result, comprise risks, uncertainty and other known and unknown factors with a potentially significant impact on results, profits or achievements, compared to the contents of Pétrolia's declarations. Actual events or results may therefore prove to be quite different. Accordingly, a decision to invest in Pétrolia shares should at no time be based on these forward-looking statements. Pétrolia disclaims all intentions or responsibilities with regard to updating these forward-looking statements.

6- STRATEGY AND OUTLOOK

The Company's objective involves discovering marketable oil resources and putting them into production as quickly as possible, with the goal of becoming profitable. While striving to achieve this objective, the Company also ensures that its activities bear in mind personal safety as well as environmental and social considerations. Pétrolia achieves this objective by holding rights over promising licenses and signing agreements with partners having the necessary technical and financial expertise. The Company installs wells according to scientific and technical principles, and relies on the best industry practices for its drilling activities. Particular attention is also paid to relations with the local socioeconomic environment.

7- REVENUES

Although Pétrolia is at the exploration stage for most of its properties, the Haldimand deposit has been producing approximately 10 barrels per day during testing. This oil is being held in inventory for technical reasons. Revenues during this quarter thus consist of interest on investments. Its financing is still assured through the issuance of shares of its capital, tax credits arising from current tax rules in Quebec, and agreements entered into with its partners.

Throughout the quarter, the Company carried out exploration work for an amount of $506,190, compared to the amount of $855,905 for the corresponding quarter in 2010. For the first quarter it incurred a net loss of $0.010 per share, compared to a net loss of $0.006 per share for the same quarter in 2010.

The commitments intended to maintain its exploration licenses in effect are disclosed under "Commitments."

EXPLORATION PROJECTS AND WORK

8.1- HALDIMAND PROJECT

From the outset, Pétrolia has dedicated a large part of its activities to exploring the geological formation known as the York River, confident that it would discover commercially producible oil reserves. Its expectations were met with the discovery of the Haldimand deposit, near Gaspé, whose recoverable oil resources are estimated at 7.7 million barrels over a territory of 9 km^2 (the best estimate from Sproule Associates Limited). The recoverable resources may be greater than estimated, since geophysical data indicates that the deposit extends beyond this area.

8.1.2- Objectives

In keeping with its business strategy, putting the Haldimand deposit into production constitutes Pétrolia's main priority. Drilling a directional well would appear to be the best means of achieving this objective.

The identification of new oil reserves with commercial potential is the secondary objective for the Haldimand sector.

8.1.3- Studies and projects

Developing Haldimand poses numerous technical challenges that the Company and its partner are currently working to resolve with the help of specialized firms.

The work performed to date reveals Haldimand to be a low permeability deposit. However, despite this characteristic of unconventional (tight oil) deposits, the Haldimand No. 1 well has naturally produced about 10 barrels per day during production testing. Studies are currently ongoing to understand the deposit's natural permeability mechanisms, its distribution of hydrocarbons, and the areas likely to be the most productive. These studies aim to determine the trajectory of a new directional well in order to optimize the natural productive potential. The work should yield a better understanding of the scope of the Haldimand structure and later confirm the resources through additional seismic profiling and drilling.

In addition to evaluating the known part of the field covered by the 3D seismic survey, work is underway to ascertain whether the deposit extends beyond the area already subject to in-place resource assessment, and if so, to determine its potential and identify any new deposits.

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8.1.3.1- Haldimand No. 3

Drilling a directional well is carried out to determine the maximum potential for natural production (no fracturing). Studies of the deposit's natural fractures along with the ongoing magnetotelluric survey will determine and optimize the trajectory of the well, whose horizontal portion would be perpendicular to the preferred general direction of the fractures. A drilling program is in preparation and a drilling license application will be filed before the end of summer 2011.

8.1.3.2- Haldimand No. 1 production testing

Pétrolia continued production testing of the Haldimand No. 1 well begun on June 30, 2010 in order to collect additional information on the deposit and to better identify its characteristics. A total of 148 m^3 (935 barrels) of oil were produced during this test period, compared to 142 m^3 (894 barrels) in the previous quarter. A portion of the well's production was placed in inventory throughout the quarter.

8.1.3.3- Field studies

During the quarter, the full range of data on the deposit (including well and seismic data) was compiled into a digital model, using GOCAD 3D visualization and modelling software to produce a three-dimensional map of the oil accumulation. Future data can be integrated into the model, thus enabling better planning of the work to come.

The studies carried out or started during this quarter include:

- Adjustment and calibration of the vertical seismic profile for Haldimand No. 2;
- A study of the fractures observed in the Haldimand No. 2 core samples and the FMI log aiming to better understand the deposit's hydrocarbon flow;
- A reprocessing of 3D data and an anisotropy study based on 3D seismic data;
- A calibration study of the magnetic resonance (CMR) logs that will establish the porosity values obtained by these logs.

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8.1.3.4- Additional surveys

The magnetotelluric survey launched at the start of the quarter set out to obtain more specific data on the deposit's geometry and its extension outside the zone covered by the 3-D seismic survey. This method is a way of identifying the zones most conducive to oil accumulation and determining the natural fracture orientation and intensity. The survey was completed in late July.

The data acquired are of high quality. Early results indicate that the method has enabled a reliable mapping of the top of the reservoir as well as the intensity and orientation of its natural fracturing.

The report on the geochemical survey conducted last quarter has been received and is being evaluated.

The seismic data acquired by Petro-Canada in 1982 regarding the vicinity of the Haldimand deposit were received and processed. Quality control for the processing is ongoing and will be finalized during the summer or early fall. The improvements to data are substantial.

The report on the gravity reversal survey has been received and is being evaluated.

8.1.3.5- Studies to conduct the fracturing tests

With a view to optimizing well productivity, Pétrolia is examining the possibility of conducting well stimulation tests with hydraulic fracturing. However, a decision on this matter is still pending. If conducted, the test date will depend on the results of the analyses, the availability of the required equipment, and the government approval process. The *Regulation Respecting the Application of the Environmental Quality Act* requires a public consultation process prior to undertaking such an operation.

The studies underway involve:

- Determining the physical parameters (pressure, flow, pump logistics, etc.) of the fracturing;

- A series of laboratory tests to determine the best fracturing fluid. The tests are conducted on core samples from Haldimand No. 2 using different fluids (water, oil from the deposit, liquid carbon dioxide and liquid nitrogen).

8.1.3.6- Environmental studies

In parallel to these studies, the Company is working on a plan to acquire scientific and environmental monitoring information. Discussions about establishing a research program are ongoing with various Quebec universities, including Institut des sciences de la mer (ISMER) at the Université du Québec à Rimouski.

Part of this program consists of determining the hydrogeological situation at time zero. The research protocol for this particular component will be established by the Institut national de recherche scientifique (INRS).

Community involvement in these studies is desired and could be ensured by appointing a committee to oversee the scientific research to be carried out within the program framework.

The eventual hydraulic fracturing will also be carried out as part of research program. The strategic environmental assessment must be aligned with the governmental committee appointed to conduct it.

Developments relating to the implementation of this program are expected during the next quarter.

SUMMARY: HALDIMAND

Surface area	900 hectares
Exploration costs as at June 30, 2011	$10,168,177
Partnership	• Pétrolia and Québénergie (64%), Junex (36%) – over 9 km^2 • Pétrolia (50%) and Québénergie (50%) outside of the 9 km^2 perimeter • Pétrolia became the operator for the Haldimand Project on July 30, 2009

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Achievements	• Acquisition of seven seismic lines 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 (February 2010) • Completion work and production test at the Haldimand No. 2 well (March 2010) • Geochemical survey • Magnetotelluric survey • Interpretation of the production testing carried out at Haldimand Nos. 1 and 2 • Calibration of the logs to validate the petrophysical interpretation
Work in progress	• Production test on Haldimand No. 1 • Laboratory studies to determine the best fracturing fluid • Natural fracture studies • Construction of a digital model of the deposit • Evaluation of the organic matter content of rock samples • Reprocessing of the 2D seismic lines • Reprocessing of the Haldimand 3D survey • Design of the Haldimand No. 3 well • Anisotropy study on 3D seismic data to determine fracture orientation
Proposed work	• Drilling of a directional well • Hydraulic fracturing studies on existing wells

8.2- TAR POINT PROJECT

Located 15 km southeast of the Haldimand wells, this well, which was drilled in 2009, has bottomed out at 2,434 m. It crosses the entire York River Formation as well as part of the Indian Cove Formation. The well has revealed the following:

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- The upper portion of the York River Formation contains no oil, because burial is too limited;
- The lower portion contains limited signs of oil with porosity characteristics similar to those of Haldimand;
- In the Indian Cove Formation, two sections of open fractures, each around 100 m thick, revealed many signs of gas and oil. During a production test on one of these two zones, the Formation delivered light crude.

8.2.1- Objectives

The objective is to demonstrate the Indian Cove Formation’s capacity for commercial oil production.

8.2.3- Studies and projects

The drilling results for Pétrolia-Tar Point No. 1 confirm high hydrocarbon potential of the Indian Cove. The characteristics found in this Formation indicate a fractured potential reservoir whose eventual exploitation will likely require hydraulic stimulation. The studies mentioned for the Haldimand project concerning the fracturing tests also apply to the Tar Point project.

As mentioned previously, no decision has yet been made regarding fracturing. If required, a public consultation will be held as stipulated in the *Regulation Respecting the Application of the Environmental Quality Act*. This work, if undertaken, will be carried out within the scientific research program described previously.

SUMMARY: TAR POINT

Surface area	
Exploration costs as of June 30, 2011	$4,885,760
Partnership	• Pétrolia (50%), Québénergie (50%)
Achievements	• Soil geochemistry survey in 2008 • Acquisition of 5 seismic lines in 2008 • High-resolution airborne magnetic survey in 2008 • Gravimetric survey in 2009 • Drilling of Pétrolia Tar Point No. 1 • Completion work and production test • Analysis of production test results
Work in progress	• Consultations/studies regarding the stimulation strategy
Proposed work	• Fracturing and putting the well into production

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8.3- BOURQUE PROJECT

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

8.3.1- Objectives

The project has completed the preliminary exploration stages and has reached the drilling stage. Pétrolia wishes to drill two boreholes as soon as possible.

Located 70 km west of Gaspé city, the Bourque project offers an opportunity to discover a significant deposit. The total depth of the targets varies between 2,800 and 3,200 m.

The Bourque project is very important to Pétrolia and its shareholders in view of the size of the potential discoveries and the interest this would generate in the Company's other properties in the Gaspé region, characterized by similar geologic conditions. Moreover, due to the conventional nature of the targets, the license process will not be affected by the government announcements concerning shale exploration and hydraulic fracturing operations.

8.3.2- Studies and projects

The Bourque No. 1 drilling program, drafted in 2009, has been reviewed and a similar program has been written for the Bourque No. 2 well. The application for a drilling permit for both wells may be filed in the next quarter.

Under the new *Environmental Quality Act*, wells that are not intended for hydraulic fracturing are unaffected by the new approval procedures that fall within the framework of the strategic environmental assessment.

8.3.3- Search for partners

Over the last quarter, Pétrolia continued to search for a partner, which Management considers preferable for this project. However, the Company may decide to drill without a partner.

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SUMMARY: BOURQUE

Surface area	• 74,267 hectares
Exploration costs as at June 30, 2011	• $3,619,982
Partnership	• 95% Pétrolia, 5% Pilatus Energy Canada • Searching for a partner
Achievements	• Purchase and interpretation of old seismic data • Acquisition of 3-D seismic data (65 km²) • Maturation study on organic matter • Interpretation and evaluation of the results of the 3-D seismic survey • Identification of two targets for drilling • Preparation of a drilling site
Work in progress	• Review of the Bourque No. 1 drilling program and drafting the Bourque No. 2 program
Proposed work	• Drilling campaign

8.4- ANTICOSTI ISLAND

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

8.4.1- Non-traditional targets

The core sample extracted from the shale in summer 2010 at the Macasty Formation (Pétrolia Corridor Chaloupe No. 1 well) has created a new exploration possibility on Anticosti Island. The analyses performed by a laboratory in Weatherford, Houston and by Schlumberger Canada in fact confirm that the shales contain considerable quantities of oil and that the formation has the characteristics required for exploration possibilities.

On June 29, Pétrolia unveiled the estimate of the Macasty shale in-place oil reserves conducted by Sproule Associates Limited of Calgary. Sproule’s best estimate for the total volume of initially-in-place oil in the shale is 30.9 billion barrels. There is a 10% probability that this volume is equal to or greater than 48.2 billion barrels (high estimate), and a 90% probability that it amounts to at least 19.8 billion barrels. The evaluation focuses on the Macasty shales where Pétrolia’s interests cover more than 6,070 km^2.

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The table below summarizes Spoule's estimate:

Estimates of the total volume of petroleum initially in place [1] In the Macasty shales, Anticosti Island, Québec As of June 1, 2011				
Classification	**Company's interests**	**Low estimate (P-90)[3] Billions of BOE[6]**	**Best estimate (P-50)[4] Billions of BOE[6]**	**High estimate (P-10)[5] Billions of BOE[6]**
Undiscovered petroleum initially in place[2]	**Pétrolia's gross interests**	**19.8**	**30.9**	**48.2**
	Pétrolia's net interests	**9.1**	**14.1**	**22.0**

1. The total volume of oil initially in place is the amount of original oil estimated to exist naturally in a shale formation. This includes the estimated quantities that, on a given date, are contained in known accumulations prior to production, in addition to the estimated quantities in as-yet undiscovered accumulations.
2. 'Undiscovered petroleum initially in place' (equivalent to undiscovered resources) is the estimated quantity of oil that, on a given date, is thought to be in an as-yet undiscovered accumulation. The recoverable portion of undiscovered petroleum initially in place is defined as a prospective resource, with the rest remaining non-recoverable. Undiscovered resources are subject to risks: there is no guarantee that even a portion of these resources will be discovered. No project to recover the volume of undiscovered petroleum initially in place can presently be formulated. There is no certainty as to the commercial viability of producing a portion of these resources.
3. The probability that the current in-place volume is greater than or equal to that estimated is 90%.
4. The probability that the current in-place volume is greater than or equal to that estimated is 50%.
5. The probability that the current in-place volume is greater than or equal to that estimated is 10%.
6. BOE – barrel of oil equivalent. The use of the oil-equivalent unit reflects the uncertainty as to the type of hydrocarbon that will be encountered on the properties as a whole.

8.4.2- Traditional targets

"Classic" structural exploration has informed the work on the island since 1960, but as yet has yielded no conclusive results.

Semi-conventional fault trough exploration has been more recently conducted by Shell, Hydro-Québec and Corridor Resources Inc. This type of exploration, known in industry jargon as "sags," has been very successful in the Appalachian Basin (Ontario and New York State). Previous exploration work such as that undertaken by Pétrolia and Corridor in 2010 has failed to meet expectations in terms of discoveries.

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Nonetheless, it has confirmed the existence of reservoirs associated with fault troughs (production of 5,000 barrels of salt water per day in the Pétrolia Corridor Saumon No. 1 well).

8.4.3- Search for partners

The exploration program on Anticosti Island, particularly with regard to the Macasty shales, is currently in its early stages. Before the development phase can be envisioned, further work will be required to determine the potential for commercial recovery of shale resources.

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

8.4.4- Research

Pétrolia has confirmed its support as a private-sector partner in the Anticosti Chair led by Université Laval. A specific project has been developed to determine the impact of oil operations on the behaviour of white-tailed deer, an important economic and tourism resource for Anticosti Island. The Anticosti Chair is in the process of renewing its budget with the Natural Sciences and Engineering Research Council of Canada (NSERC). A decision that will comprise the component involving Pétrolia is expected to be issued in the next quarter.

SUMMARY: ANTICOSTI

Surface area	• 638,106 hectares
Exploration costs as at June 30, 2011	• $6,230,575
Partnership	• Corridor Resources Inc. • License acquired in 2007 • Pétrolia interest: 25% to 50% • Seeking a partner to continue evaluating the potential of the Macasty Formation

Achievements	• Interpretation of seismic lines and available drilling data • Soil geochemistry survey (gas absorbed through microbial analysis) conducted on the entire island in 2008 (1,700 samples) • Interpretation of Shell and Hydro-Québec seismic data • Integration of drilling data into modern composite logs • Evaluation of the Shell Jupiter No. 1 and Shell Roliff No. 1 wells • Study on the characteristics of organic matter in selected wells on the island • Drilling campaign in 2010 (3 wells drilled), including three contiguous core samples extracted in the Macasty Formation • Environmental characterization of drilling sites • Reports on drilling activities carried out in the summer of 2010 • Study of the analysis results of the core samples extracted from the Macasty Formation
Work in progress	• Search for partners
Proposed work	• Continue with the Macasty evaluation

8.5- OTHER PROPERTIES

As it did in recent quarters, Pétrolia focused on the Haldimand and Anticosti projects, resulting in little activity on its other properties (activity that is nonetheless sufficient for meeting its obligations).

Organic matter analyses were conducted on field samples from all of its properties in order to enhance Pétrolia's knowledge of the maturity and source rock potential of rocks in the Gaspé region. Weatherford was mandated to carry out this work. The results are now known and will be incorporated into the other data.
Amounts were also allocated to a geochemical project carried out by the same firm and using the same approach as the Haldimand survey. This project, which was introduced during the quarter and is slated to continue into the next quarter, covers portions of the Gaspésia, Edgar and Marcel-Tremblay properties.

No other activities were carried out on these properties.

8.6- GOVERNMENT DECISION

During the quarter that ended on June 30, 2011, the Quebec National Assembly adopted Bill 18 – *An Act to limit oil and gas activities*. The Government of Quebec has also published two regulations that will impact oil and gas exploration.

The new Act has two objectives:

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- To prohibit hydrocarbon exploration in the marine environment and on any islands located west of Anticosti;
- Under the Government of Quebec's strategic environmental assessment, to exempt petroleum and natural gas licensees from their obligation to perform the exploration work. In return, it will prolong the validity period of existing permits for an equivalent period.

The two regulations are as follows: *An Act to amend the Environmental Quality Act*; and the *Regulation respecting the filing of information on certain drilling and fracturing work on gas or petroleum wells*. The first aims to oblige all companies intending to perform shale drilling and hydraulic fracturing activities to obtain a certificate of environmental authorization from the Quebec Ministry of Sustainable Development, Environment and Parks, and to hold a public consultation prior to undertaking any such work. The second aims to foster the strategic environmental assessment of hydraulic fracturing by requiring companies that perform this work to provide information.

These regulations are liable to impact Pétrolia's activities to some extent, notably with regard to the time needed to obtain government authorization.

Management is closely monitoring this matter so as to be able to continue its activities aimed at developing the Haldimand deposit and defining an action plan for its other properties.

9 Operating Results and Cash Position

For the third quarter, the Company received an amount of $26,898 for the evaluation of oil reserves compared to the sum of $39,997 received last year. The reduction in this type of revenue is largely due to the fact that part of the oil produced in this quarter was stored in inventory, and that, following the sale of an interest to Québénergie, the Company collected 50% of the revenues. Interest revenue on short-term investments accounted for $33,665, compared with $7,345 for the same period in 2010. A stewardship revenue of $17,708 was generated by exploration work detailed in partnership agreements.

As at June 30, 2011, the Company had cash and cash equivalents of $5,690,762, a decrease of $421,891 since March 31, 2010. Exploration, administration and capital investment expenses account for most of this variation.

As of June 30, 2011, working capital was positive at $6,590,112, which will allow the Company to continue its exploration projects.

During July and August 2011, numerous options and warrants were exercised, allowing the Company to collect the sum of $3,286,707.

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10 Commitments

Under the terms of exploration licenses granted by Quebec's Ministry of Natural Resources and Wildlife and New Brunswick's Ministry of Natural Resources, the Company has committed to pay them a rent amount of $622,266 by 2013. The following minimum payments will be due over the course the next few fiscal years:

2011	2012	2013
$209,776	$206,245	$206,245

In addition, the Company must perform work on its properties on a yearly basis, with minimum costs varying according to the age of the licenses; therefore, they correspond to $0.50 per hectare for the first year of the license and increase by $0.50 annually, ultimately reaching $2.50 per hectare as of year five. The minimum amount of work required is $135,398 in 2011, $968,687 in 2012, $665,747 in 2013, and $840,943 in 2014.

The Company has signed leases for the rental of office space and one house from four different corporations. The balance of the commitments associated with these leases, excluding escalation clauses, is $1,360,469, of which $7,700 is payable to a company in which a director holds a minority share.

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

2012	2013	2014	2015	2016
$263,150	$275,247	$275,247	$275,247	$206,435

11 Analysis of Operating and Administrative Expenses

Operating and administrative expenses for the quarter totalled $611,614, compared with $382,287 in 2010. The $229,327 increase between the same quarter in 2011 and 2010 is mainly due to the following variances:

- Stock-based compensation: an amount of $153,625 was recorded, while in 2010 no amount was recorded;
- Salaries and fringe benefits: payroll for the quarter grew by $87,812 as the result of an increase in the Company's exploration activities;
- Interest on the debt: An interest amount of $21,841 was accounted for with regard to the debt incurred through the funding of tax credit on resources.

During the quarter, fixed assets rose by $419,847. The increase is due to the purchase of a property ($62,107); the purchase of two reservoirs ($56,714); and a building purchase along with the construction of new offices ($301,026).

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12 SUMMARY OF QUARTERLY RESULTS

	2011		2010				2009	
	June $	March $	December $	September $	June $	March $	December $	September $
Revenue	51,373	45,386	6,522	(46,658)	47,342	6,646	18,772	46,759
Net earnings (net loss)	(488,636)	(384,846)	3,477,401	(330,057)	(244,544)	(402,692)	(381,236)	386,447
Net earnings (net loss) per share								
Basic	(0.010)	(0.008)	0.0695	(0.0068)	(0.0053)	(0.0092)	(0.0092)	0.0095
Diluted	(0.009)	(0.008)	0.0571	(0.0068)	(0.0053)	(0.0092)	(0.0094)	0.0073

Revenue consists mostly of interest earned for each of the quarters. The negative revenue for September 2010 is mainly due to the reclassification of income from the evaluation of oil reserves over the first three quarters of fiscal 2010, which was itemized against the exploration expenses reported. General and administrative expenses are relatively stable from one quarter to another. The main changes in quarterly losses or profits are explained as follows:

2009 – September	Unrealized gain of $200,000 on an investment and future income taxes of $542,000 recorded.
2009 – December	Unrealized loss of $458,500 on an investment and a gain on disposal of shares of $395,163 recorded.
2010 – March	Stock-based compensation of $183,600 recorded.
2010 – December	Stock-based compensation of $48,600 and a gain on disposal of interest in certain licenses of $3,856,703.

2011 – March	Stock-based compensation of $71,400 recorded.
2011 – May	Stock-based compensation of $160,750 recorded.

12 RELATED-PARTY TRANSACTIONS

During the quarter, a company (Gestion LesTrois Inc.) in which one of Pétrolia's directors holds a minority interest billed the Company rent for space in the amount of $4,209 (2010 – $2,214).

Also during the quarter, another company (Géominex Inc.) in which one of Pétrolia's directors holds a minority interest. As at June 30, 2011, $28,839 is due from these two companies (2010 – $33,893).

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

	2011 **$**	**2010** **$**
Salaries and fringe benefits	746	20,169
Office supplies	200	500
Telecommunications	-	1,339

A sum of $964 is due to this company as at June 30, 2011 (2010 – $12,119).

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

13 ACCOUNTING POLICIES

During the second quarter, the company adopted an inventory policy.

Accounting policy for inventory

Inventory is evaluated following the retail inventory method, whereby each element is evaluated at the current sale price, which is then reduced using the percentage markup for each category concerned.

Readers are asked to refer to Note 2 in the financial statements dated September 30, 2010, for a detailed description of the other accounting standards.

14 NEW ACCOUNTING STANDARDS

No new accounting standards were adopted during the quarter.

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15 Future Accounting Standards

IFRS Convergence

In February 2008, the Accounting Standards Board (AcSB) confirmed that Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS). 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 December 31, 2011, and the annual financial statements for the fiscal year ended September 30, 2012, will be the first that it presents in accordance with IFRS.

Training

The personnel assigned to the convergence with IFRS has undergone and continue to receive training by the Order of Chartered Accountants of Quebec. Given that 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 convergence to IFRS should be completed throughout fiscal 2010-2011. In general, much effort must be put into the presentation of financial statements, since 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 Company's financial statements. This list should not be considered an exhaustive list of the modifications that will result from conversion to 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 IFRS carry out significant projects on a continuous basis, which could have an impact on the final differences between Canadian GAAP and IFRS and their repercussions on the Company's 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 IFRS are adopted for the first time. The fundamental principle of IFRS 1 is the retrospective application of valid IFRS as of the date of initial

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adoption. IFRS 1 realizes that a full retrospective application may not be possible or appropriate in all situations and stipulates:

• Exemptions for certain specific aspects of certain IFRS in the preparation of the opening balance sheet; and
• Mandatory 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 convergence to IFRS.

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.

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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 shareholders' equity during previous periods must be recorded directly in other comprehensive income or directly in shareholders' equity ("retrospective research"). According to Canadian GAAP, any subsequent variation of deferred taxes is charged against earnings.	Opening balance sheet: No significant impact is expected on overall shareholders' equity. 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 shareholders' 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.

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Steps in the Conversion Process:

First Step
Consists of the initial evaluation, i.e. identifying the differences between Canadian GAAP and IFRS, as well as conducting an initial analysis of IFRS 1 – regarding exceptions for the initial switch to IFRS. This phase is now completed.

Second Step
Consists of the detailed evaluation, and includes the prioritization of accounting issues, the quantification of the impact of the conversion to IFRS, and the examination and approval of the accounting principles selected. This phase is now completed.

Third Step
Design: the accounting system and its internal controls are simple, for the Company is still in the exploration phase and should, seeing as no major challenges are anticipated, be able to operate its accounting systems according to IFRS. This being said, some Excel spreadsheets will need to be modified so as to support the changes rendered necessary by the convergence. This phase is currently being executed.

Fourth Step
The fourth implementation phase is underway, and we are dedicating significant energy to preparing IFRS financial statement models. According to the provisions of IFRS 1, we are required to disclose not only comparative data, but also, during the year in which IFRS are adopted, the opening balance sheet at the start of the comparative period.

We feel that the Company will be in a position to prepare an interim financial report that complies with IAS-34 for its quarter ending on December 31, 2011.

Information Systems

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

Impact on Commercial Activities

The Company's 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 long-term 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 the 2010–2011 fiscal year in order to detect impacts not identified during our initial analysis.

16 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, 2011, 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 Company's 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 at June 30:

	2011 $	2010 $
Cash	505,483	365,202
Money market fund	1,000	3,440,735
Guaranteed investment certificates	5,184,279	-
Receivables	3,628,483	1,615,629
	9,319,245	5,421,566

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 and the sale of interests in some of its petroleum assets. One of Management's main financial objectives is to maintain an optimal level of liquidities by actively managing the exploration

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work to be performed. Considering the liquid resources at the Company's disposal, Management feels that the Company is exposed to high liquidity risks.

All of the Company's financial liabilities have a maturity of less than one year.

Market Risk

Market risk is the risk of fluctuations in the fair value or future cash flows of financial instruments due to market factors. Market risk is comprised of three types of risk: interest rate risk, foreign exchange risk, and other price risks. The Company is exposed to two of these risks, namely interest rate risk and other price risks.

A) Interest Rate Risk
Interest rate risk refers to the effect of interest rate fluctuations on the value of investments and long-term debt.

Investments are at a fixed interest rate, and thereby expose the Company to the risk associated to variations in the fair value ensuing from interest rate fluctuations. For the quarter ended June 30, 2011, an increase or decrease of 1% in the interest rates in effect at that date (with all other variables remaining equal) would have triggered a net loss variation of $1,590.

The Company has a variable rate bank loan, and is thus exposed to interest risk due to fluctuations in the prime rate. For the fiscal year ended June 30, 2011, an increase or decrease of 1% in the interest rates in effect at that date (with all other variables remaining equal) would have triggered a net loss variation of $600.

B) Other Price Risks
The Company is exposed to fluctuations in oil and gas prices, which have an effect on the potential profitability of the oil and gas properties it holds. This can go so far as to impact the Company's exploration plans and decisions to move ahead with production.

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 instrument's accounting treatment. The Company establishes the category during the initial recording of the financial instrument based its underlying goal.

The Company's 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
Investments	Held for trading	Fair value
Trade and other payables	Other financial liabilities	Cost after impairment
Loan	Other financial liabilities	Cost after impairment

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.

Fair Value

The fair value of investments is determined as follows:

- Guaranteed investment certificates: given their recent issuance, the fair value corresponds to their cost.

- Money market funds: given their short-term maturity, the fair value corresponds to their cost.

As regards the loan, the accounting value is quite close to the fair value, and this because of a variable interest rate on the debt.

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 – valuation based on the prices (non-adjusted) listed on the asset markets for identical assets or liabilities: cash is found on this level.

Level 2 – 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): cash equivalents and investments are found on this level.

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Level 3 – 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.
There was no transfer in the valuation of financial assets between levels 1 and 2 during the quarter.

The fair value of financial instruments for the period ending on June 30 is summarized as follows:

	2011		**2010**	
	Book value $	**Fair value $**	**Book value $**	**Fair value $**
Financial assets held for trading:				
Cash and cash equivalents	5,690,762	5,690,762	3,805,937	3,805,937
Investments	754,331	754,331	-	-
Loans and debts:				
Receivables	3,605,086	3,605,086	1,615,629	1,615,629
Other financial liabilities:				
Trade and other payables	1,376,247	1,376,247	759,128	759,128
Loan	2,243,310	2,243,310	-	-

RISK AND UNCERTAINTY

The mining properties held by the Company are currently in the exploration phase. The Company's long-term profitability is partially contingent on the costs and success of the exploration and ensuing development programs, which could in themselves be affected by various factors. These factors include environmental regulations, the characteristics of future mining deposits (quality and quantity of resources), production infrastructure development costs, financing costs, the cost of metals, the market value of mining products, and the competitiveness of the industry. The successful completion of reserve exploration and development projects will require major investments. Without cash flows generated by mining operations, the Company is dependent on capital markets for the financing of its exploration and development activities. Market conditions and other unexpected events could have an impact on the Company's ability to raise the funds needed to grow.

17 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 Pétrolia's Web site at **www.petroliagaz.com**.

b) Rule 51-102 Section 5.2

The deferred exploration expenses for the quarter ended June 30, 2011, are detailed as follows:

	Geology $	Analysis $	Geophysical surveys $	Drilling $	Completion $	General expenses $	Evaluation of oil reserves $	Stock-based compensation $	Resource evaluation $	Total $
Anticosti	21,413	602	792	41,737	-	8,643	-	507	55,142	128,836
Gastonguay	-	-	-	-	-	528	-	-	-	528
Gaspésia-Edgar-Marcel-Tremblay	32,733	-	594	-	-	8,687	-	-	-	42,014
Gaspé	2,846	-	4,462	-	-	8,038	-	5,432	-	20,778
Gaspé Bourque Project	20,726	-	1,200	4,011	-	2,832	-	-	-	28,769
Gaspé Haldimand project	96,389	-	29,628	30,061	2,214	15,585	58,508	-	-	232,385
Gaspé Tar Point project	16,416	-	-	18,013	-	958	13,937	-	-	49,324
Dalhousie (New Brunswick)	252	-	198	-	-	1,920	-	1,186	-	3,556
	190,775	602	36,874	93,822	2,214	47,191	72,445	7,125	55,142	506,190

b) Rule 51-102 Section 5.2

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

	Geology	Analysis	Geophysics	Drilling	Completion	General expenses	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	119,440	310,533	94	453,591
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	172,231	549,895	1,616	855,905

c) Rule 51-102 Section 5.3

Information on shares issued, warrants, and stock options as at August 8, 2011:

Common shares: 53,964,860 common shares have been issued and are outstanding.

Warrants: Warrants can be exercised as follows:

- 561,838 shares at a price of $1.30 per share until December 4, 2011;
- 3,000,000 shares at the minimum price of $1.00 per share until January 10, 2013.

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

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- 31,250 options exercisable at a price of $0.74 per share until May 21, 2012;
- 587,500 options exercisable at a price of $0.40 per share until June 21, 2012;
- 400,000 options exercisable at a price of $0.60 per share until February 12, 2013;
- 150,000 options exercisable at a price of $0.60 per share until March 3, 2013;
- 427,500 options exercisable at a price of $1.25 per share until July 7, 2013;
- 120,000 options exercisable at a price of $0.74 per share until May 21, 2014;
- 270,000 options exercisable at a price of $0.89 per share until February 25, 2015;
- 802,500 options exercisable at a price of $0.50 per share until December 8, 2015;
- 75,000 options exercisable at a price of $1.31 per share until February 25, 2016;
- 500,000 options exercisable at a price of $1.69 per share until May 18, 2016;

18 Management's 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 8, 2011

On behalf of the Board

(signed) *André Proulx*

André Proulx
President

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