Leader en exploration pétrolière au Québec

**Management discussion and analysis**
**for the period ended June 30, 2012**

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**INTERIM MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THIRD QUARTER ENDED JUNE 30, 2012**

This interim management discussion and analysis (MD&A), approved by the Board of Directors, 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, 2011 and 2010, and the annual management report, where required.

This report presents the view of management on current Company activities and financial results as at June 30, 2012, and provides a preview of activities during the coming months.

The Company's reporting currency is Canadian dollars (CAN$).

## 1. DATE

This management report for the quarter ended June 30, 2012 is dated August 22, 2012.

## 2. INCORPORATION AND MISSION

Incorporated under Part 1A of the Quebec *Companies Act* and governed by the provisions of the Quebec *Business Corporations Act*, Pétrolia is an oil and gas exploration company. It has been listed on the TSX Venture Exchange since February 16, 2005, under the symbol PEA.

The Company's oil and gas properties are at the exploration stage, and the Company’s long-term profitability is tied in part to the cost and success of the exploration programs and subsequent development. The Company has not yet established whether its properties contain economically feasible reserves.

The Company’s primary activities are the exploration and development of its oil and gas properties. To achieve its objectives, the Company forms partnerships with other industry stakeholders.

## 3. FORWARD-LOOKING STATEMENTS

Some of the statements made in this report may constitute forward-looking statements. Such statements concern future events or future performance and comprise risks, uncertainty and other known and unknown factors that may cause the actual results of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Accordingly, a decision to invest in Pétrolia's 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.

## 4. HIGHLIGHTS OF THE THIRD QUARTER ENDED JUNE 30, 2012

- $15.75 million in financing announced and closed
- Three drilling licences obtained for Gaspésie
- Contract signed for the Precision Drilling 501 rig for three wells
- Proposal for a new royalty regime applicable to oil production in Quebec

## 5. STRATEGY AND OUTLOOK

The Company's objective is to discover oil resources and put them into production as quickly as possible, with the goal of becoming profitable. The Company continues to pursue this objective, bearing in mind personal safety as well as environmental and social considerations. Pétrolia achieves this objective by holding rights over promising licences and signing agreements with partners with the necessary technical and financial expertise. The Company installs wells according to scientific and technical principles, and relies on best industry practices for its drilling activities. It pays special attention to relations with the local socio-economic milieu in which it operates.

In February, the TSX Venture Exchange named Pétrolia a "2012 TSX Venture 50 company." Based on the increase in market capitalization, share price, trading volume and analyst coverage, Pétrolia ranked first among the 280 oil and gas companies listed on the Venture Exchange.

### 5.1 Financing

On May 16, 2012, Pétrolia announced the closing of a private placement totalling $15,750,003, under the conditions laid down when the placement was previously announced.

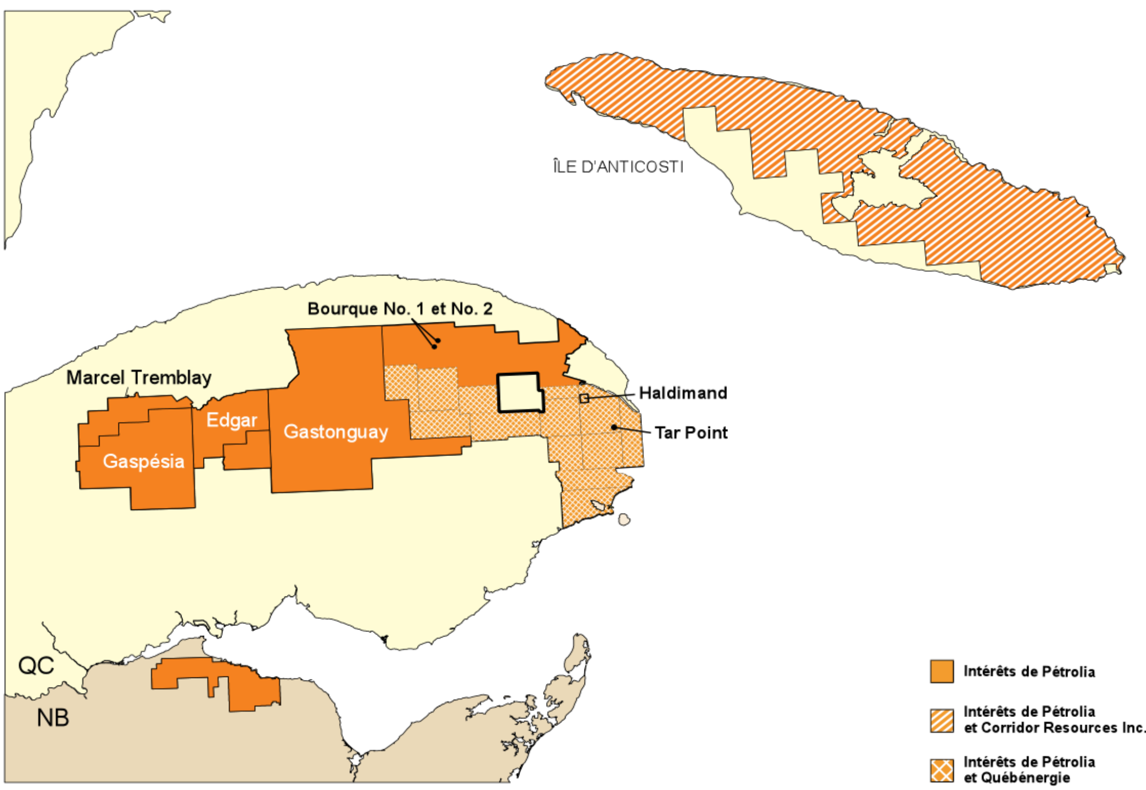
Investissement Québec thereby purchased 7,042,254 units (the "Units") of the Company at $1.42 per Unit for total gross proceeds of $10,000,000. Each Unit is made up of one common share and one half warrant; each whole warrant allows the bearer to acquire one common share of the Company at a price of $1.78 for a period of 36 months following the closing date.

In addition to Investissement Québec's private placement, the Company announced the closing of an agreement with Laurentian Bank Securities Inc. and National Bank Financial Inc. (the "Underwriters"), under which the Underwriters agreed to purchase, on a bought deal private placement basis, 4,049,298 Units of the Company, at the same terms and conditions governing the Investissement Québec private placement, for total gross proceeds of $5,750,003.

The total gross proceeds of these private placements are $15,750,003 and will be used mainly to finance three well completions on the Haldimand and Bourque properties in 2012.

## 6. LICENCES AND PARTNERSHIPS

Pétrolia holds licences and interests in licences covering a territory of approximately 14,000 km², as illustrated on the map below.




**Pétrolia interests**
**Pétrolia and Corridor Resources Inc. interests**
**Pétrolia and Québénergie interests**

## 6.1 Partnerships

The map on the previous page also illustrates the territories covered by both partnership agreements entered into by Pétrolia:

- The first one was concluded with Hydro-Québec so that Pétrolia substitutes them in all licences and interests on the island of Anticosti. Pétrolia holds a 50% interest in 29 licences, and a 25% interest in six licences. Pétrolia is the operator for 23 licences, and CRI owns the other interests and is the operator for 12 licences. Together, all of the licences identified in this agreement cover more than 6,000 $km^2$.

- The second agreement covers a portion of the territory on the Gaspé peninsula (about 2,500 $km^2$), where interest is shared equally with Québénergie for the 13 licences covered by the agreement.

## 7. A DOMINANT POSITION

In Quebec, oil resources are found in the east, in the Gaspé region, on Anticosti Island, and perhaps in the Gulf of St. Lawrence. Since it was founded in 2003, the Company has acquired licences that cover more than 14,000 $km^2$, mainly in the Gaspé region and on Anticosti Island. These licences cover more than 70% of Quebec's land-based petroleum potential, giving Pétrolia a dominant position in Quebec in terms of petroleum exploration.

The Company may have appeared rash when it concentrated its efforts on searching for oil at a time when the industry was enthusiastic about natural gas in the Utica Shale of the St. Lawrence Lowlands. However, the rise in the price of oil and natural gas has made the Company's decision appear wise in hindsight. In fact, a number of companies—including major corporations—that are active in the North American hydrocarbon exploration sector are now making the same choice.

Pétrolia defines itself as a responsible petroleum company that is committed to producing oil to meet a significant portion of Quebec's energy needs.

## 8. PROPERTY AND WORKS

## 8.1 Haldimand property

The recoverable oil resources from the Haldimand deposit, near Gaspé, are estimated at 7.7 million barrels on 9 $km^2$ (best estimate by Sproule Associates Limited in June 2010). However, this figure may be higher since the geophysical data indicate that the structure extends beyond this area, in particular to the west.

### 8.1.1 Objectives

In keeping with the Company's business strategy, putting the Haldimand deposit into production is the main priority. Pétrolia's projects show that drilling a horizontal well is the best way to achieve this objective in the short term.

Identifying volumes in addition to those already estimated is the second objective. These additional volumes could be associated with an extension of the reservoir beyond the perimeter initially established in the estimate or with the discovery of new reservoirs.

### 8.1.2 Studies and projects

As a result of these studies and analyses, the Company now has a better understanding of the Haldimand reservoir and its production mechanism. The reservoir appears to be made up of a network of natural fractures that ensure the free flow of oil. This is an important discovery that may allow for conventional extraction, i.e. without having to resort to fracturing.

The next well, which will be drilled in fall 2012 and is the third well on this structure, could confirm the hypothesis that conventional extraction from this field is possible and profitable.

The following flowchart illustrates the planned work and potential decisions to be made as the next well is drilled.


| **Stages leading to output** | |
|---|---|
| **Application for a production lease** | **7** |
| **Public hearing** | **6** |
| **Consultation (city and citizens)** | **5** |
| **Development of a site plan** | **4** |
| **Profitability study** | **3** |
| **Drilling in Haldimand (no fracturing)** | **2** |
| **Meeting with the public** | **1** |

#### 8.1.2.1 Studies

Studies were conducted in the first quarter to understand the deposit's natural permeability mechanism. The distribution of hydrocarbons was also studied to identify the areas likely to be the most productive. These studies were intended to determine the trajectories of new directional wells in order to optimize the natural productive potential. The drilling of the next well should provide a better understanding of the scope of the Haldimand structure and confirm the resources.

The construction of the first version of a digital model of the deposit has now been completed. This model will be used to integrate the results of the next well on the structure (Haldimand No. 4) and to plan future work.

### 8.1.2.2 Work

Preparatory work for the drilling of a third well was completed in the third quarter. The services of Precision Drilling and rig 501 were retained. Drilling for the Haldimand No. 4 well will begin after the Bourque No. 1 and Bourque No. 2 wells are drilled.

The Haldimand No. 4 well, for which Pétrolia has received a drilling licence from the Ministère des Ressources naturelles et de la Faune (MRNF), will reach a total depth of 1,087 metres and its horizontal section will be 2,000 metres long. Drilling for this well will begin in fall 2012. No hydraulic fracturing operations are contemplated.

Under the agreement with Québénergie, the latter will assume most of Pétrolia's participation costs for the Haldimand No. 4 well. A portion of the private financing announced in April 2012 will be used to cover Pétrolia's share of the costs of this third round of drilling on Haldimand, in accordance with the partnership agreement with Québénergie.

### 8.1.3 Environmental studies and work

Concurrently with these studies, the Company is developing a plan to acquire scientific and environmental monitoring information.

The Company is working with scientists from various Quebec universities (INRS and UQAC) to learn how its work impacts the social and physical environment. Begun in the first quarter of this fiscal year, this project will continue over the next five years.

As such, in fall 2011, the INRS undertook a hydrogeological assessment of the Haldimand peninsula and set up a monitoring mechanism for Pétrolia’s oil operations. Surface drilling was performed and water samples taken to construct a hydrogeological model of the peninsula. As the following table shows, the first phase work has progressed significantly since the program was launched:

| Field activities | Planned | Work completed to date | To be completed |
|---|---|---|---|
| **1. Drilling operations** | 17 | 13 | 4* |
| **2. Hydraulic tests** | 20 | 15 | 5 |
| **3. Water samples and analysis** | 75 | 70 | 5 |
| **4. Water table monitoring** | 3 | 1 | 2 |

The INRS will be responsible for designing the plan and monitoring the work. The information and results from this study and five-year monitoring plan will be released periodically.

Industry stakeholders were also invited to participate in this project, and liaisons with the latter are ensured by the UQAC Chaire d'Éco-conseil. More specifically, other than the training and publication aspects of its scientific research mission, the Chaire d'éco-conseil aims to promote dialogue from an environmentally responsible perspective between the various stakeholders interested in petroleum development.

Pétrolia is very proud of its innovative relationship with Quebec's universities, established from the earliest stages of its activities, as well as the universities' collaboration with industry stakeholders.

**8.2 Tar Point property**

Drilled in 2009 and located 15 kilometres southeast of the Haldimand wells, this well has bottomed out at 2,434 metres. It crosses the entire York River Formation as well as part of the Indian Cove Formation.

There were few signs of oil in the York River Formation but light crude was found during a production test on a fractured zone of the Indian Cove Formation.

**8.2.1 Objectives**

The objective is to demonstrate the Indian Cove Formation's capacity for commercial oil production. Since signs of oil have been systematically observed in this formation, this area offers an interesting exploration opportunity in the Gaspé.

**8.2.2 Studies and projects**

The drilling results for Pétrolia-Tar Point No. 1 confirm Indian Cove's high hydrocarbon potential. The results of the injectivity test conducted in the first quarter have been analyzed. Pétrolia is continuing to study various ways to tap the potential of this formation.

**8.3 Bourque property**

The Bourque property has potential for the discovery of conventional reservoirs. The Bourque project is very important to Pétrolia in view of the size of the potential discoveries and the interest that would be raised in the Company's other properties in the Gaspé region where similar geological conditions prevail.

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 first trap is a pinnacle reef, the same as the Leduc reef in Alberta, in which giant oilfields have been discovered, marking a turning point for oil and gas exploration in that province. The second structure is a barrier reef.

### 8.3.1 Objectives

Preparation for drilling has been completed. Target areas for two wells have been identified, and drilling programs have been submitted to the MRFN, which granted Pétrolia the necessary drilling licences in the third quarter.

Located 70 km west of Gaspé City, the Bourque project offers an opportunity to discover a significant conventional deposit. The total depth of the targets ranges from 2,000 to 3,200 metres. This project is also likely to generate significant economic spinoffs associated with raw material processing in the region.

### 8.3.2 Studies and projects

The Bourque No. 1 and No. 2 drilling program was based on the recommendations of the supplemental impact assessment published by the New York State Department of Environmental Conservation. These programs meet and surpass the usual safety standards.

Drilling of the Bourque No. 1 well began on July 19, 2012, with the intention of reaching a barrier reef. Once the first well is complete, the drilling equipment will be moved to the Bourque No. 2 site for the second well. This drilling targets a pinnacle reef. It will take an estimated eight weeks to complete each of these wells.

Pétrolia has created a website dedicated to the Bourque project that gives visitors information on the project and allows them to track its progress (www.bourque.petroliagaz.com).

## 8.4 Anticosti property

Anticosti Island meets the four criteria sought in a petroleum system, namely a highly productive source rock favourable to 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 potential oil plays.

Of these traditional oil exploration criteria, the development of source rock has attracted the most attention, due to its immense potential.

### 8.4.1 Shale oil

The core sample extracted from the shale in summer 2010 at the Macasty Formation (Pétrolia Corridor Chaloupe No. 1 well) has created a new potential oil play on Anticosti Island. This formation is the lateral equivalent of the Utica Formation in Ohio, which has garnered significant industry attention, showing that this formation is capable of producing substantial volumes of oil and gas.

The studies done by a Weatherford laboratory in Houston and by Schlumberger Canada confirm that the Macasty shales contain considerable quantities of oil and that the formation has the characteristics required to develop this potential oil play.

On June 29, 2011, Pétrolia unveiled the estimate of the Macasty shale in-place oil reserves conducted by Sproule Associates Limited, a petroleum consulting firm based in Calgary. Sproule's best estimate for the total volume of initially-in-place oil in the Macasty shale (covered by licences in which Pétrolia has an interest) 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 Company's interests cover more than 6,000 $km^2$.

Moreover, on December 1, 2011, Pétrolia revealed new test results similar to those for the Utica shale in Ohio. These new tests were carried out by the laboratories of a major independent oil company recognized as an industry leader in shale oil and gas production and exploration. The results are more encouraging than those released by the partners on February 9, 2011, and confirm the high oil and gas production potential of the Macasty Formation. The following table illustrates these results.

| Parameters | Macasty shales |
|---|---|
| Mineralogy (average %) | quartz 35, plagioclase 7, carbonate 10, clays 28, other 20 |
| Total depth | 40 m (130 ft.) |
| Total porosity | 2.4 to 5.1% (average: 3.6%) |
| Oil saturation | 25.0 to 31.3% (average: 27.8%) |
| Gas saturation | 37.5 to 45.9% (average: 40.9%) |
| Water saturation | 25.2 to 38.1% (average: 31.3%) |
| Permeability | 197 to 739 nD (average: 479 nD) |
| Total organic carbon | 2.38 to 5.74 wt % (average: 4.34 wt %) |
| Thermal maturity | 8.9 (% Ro) (calculated from Tmax) |

Lastly, a petrophysical study conducted in the second quarter showed that the Macasty shale compares favourably with the Utica shale in Ohio.

### 8.4.2 Work

Over the last quarter, Pétrolia began developing an exploration program for 2012 concerning shale oil targets. These projects include analyzing drill cuttings and core samples, carrying out stratigraphic surveys intended to gather new cores, and carrying out fracturing fluid compatibility tests. The program should be completed in the coming quarter so as to begin implementation in summer 2012.

### 8.4.3 Conventional targets

Conventional structural exploration has been carried out on the island since 1960 but to date has yielded no conclusive results.

Semi-conventional fault trough exploration was more recently conducted by Shell, Hydro-Québec and Corridor Resources Inc. This type of exploration, known in industry jargon as "sags," was very successful in the Appalachian Basin (Ontario and New York State). Although exploration by Pétrolia and Corridor in 2010 failed to meet expectations in terms of discoveries, it did confirm the existence of very high quality reservoirs associated with fault troughs (production of 5,000 barrels of salt water per day in the Pétrolia Saumon Corridor No. 1 well).

However, these opportunities are not a priority for the Company, which prefers to focus on developing the potential at Macasty.

**8.4.4 Search for partners**

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

Developing Anticosti Island will require considerable capital. Finding partners with the requisite financial and technical resources is therefore a priority. Pétrolia is currently assessing its options in the best interests of its shareholders.

**8.4.5 Environmental research project**

Pétrolia has confirmed that, as a private-sector partner, it will support the work of Université Laval’s Anticosti Chair. A 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 has received confirmation from the Natural Sciences and Engineering Research Council of Canada (NSERC) that its budget will be renewed. Pétrolia is proud to be associated with the Anticosti Chair’s work. This research will provide the knowledge needed to improve practices and promote eco-friendly development. Our contribution ($200,000 over five years) attests to the Company’s engagement in the communities in which it operates.

Furthermore, Pétrolia intends to implement an approach similar to that being used on the Haldimand Peninsula, in order to characterize the regional hydrogeological system and ensure that exploration projects continue. Discussions have been initiated with the INRS in view of putting the first infrastructures in place between by the end of 2012. Although not mandatory, these projects form part of Pétrolia's responsible approach to the physical and human environment in which the Company operates.

**8.5 Other properties**

A seismic program was prepared for the Gaspésia property to find a drilling target on a potential trap discovered during a 2008 survey. On July 16, the MRNF issued the geophysical surveying licence required to carry out the survey, which has not yet been scheduled.

Given that thermal maturity studies indicate that gas is more likely to be discovered in this target, the Company has made it a priority to develop the Haldimand property. However, the potential emergence of gas projects in the region could cause the Company to rethink its priorities and rekindle interest in a drilling project in the Gaspésia property.

The status of licences in New Brunswick has not changed. Pétrolia will continue monitoring the situation in this province.

## 9. CHANGES TO THE LEGISLATIVE AND REGULATORY FRAMEWORK

In the last quarter, the Quebec Minister of Finance’s Budget Speech expressed the government’s interest in developing the oil and gas potential of Eastern Quebec.

The highlights of this Speech were:

- The proposal of a new royalty regime applicable to oil production
- The possibility of government participation in developing the potential

The proposed new royalty regime must be adopted by the National Assembly before coming into effect. When the parliamentary session ended in June, the bill enabling the proposal to be implemented had not yet been passed.

Under the proposed new regime, royalty rates could reach 40% of the value of production in some cases. In the interim, the oil royalty regime that has been in force for several years, under which rates vary from 5% to 12.5%, continues to apply.

The Minister of Finance also showed some openness to implementing special measures to take into account the special situation on Anticosti Island. Pétrolia is prepared to work with the Minister to define the conditions that will ensure a balance in order to develop this region’s vast potential.

As regards the government’s equity participation, as mentioned earlier, Pétrolia has secured its first private placement from Investissement Québec. The $10 million placement will be used to develop the Haldimand and Bourque properties.

## 10. MANAGEMENT ANALYSIS OF FINANCIAL INFORMATION

### 10.1 Operating results and cash position

For the third quarter, the Company's revenues consisted of interest on short-term investments of $46,848, compared with $33,665 in the third quarter of 2011 and project management and rental income of $444, compared with $17,708 for the third quarter of 2011.

The increase in interest income stems from the increase in cash flow.

As at June 30, 2012, the Company had cash and cash equivalents of $20,073,562 and working capital of $20,817,073. Management believes that it has sufficient cash to meet its current obligations and relies on its ability to raise capital through public offerings and negotiated private placements.

During the quarter, the Company issued 11,681,552 shares for a consideration of $15,994,853, pursuant to the exercise of stock options, share warrants and a new share issue.

For the third quarter of 2012, the Company recorded a loss of $675,032, compared to a loss of $672,511 in Q3 2011.

### 10.2 Analysis of operating and administrative expenses

Operating and administrative expenses rose $102,372.

The main differences in the administrative expenses are as follows:

- Salaries and benefits: Operations-related payroll increased slightly. Administrative and technical staff was hired.
- Promotion and entertainment: The increase in expenses is mainly due to the commissioning of a survey.
- Professional fees: Fees were incurred for a strategic study, recruitment, the search for funding and to settle legal disputes.
- Rent: Lease expenses rose in 2011, mainly due to the expansion of the Québec City offices.

### 10.3 Summary of quarterly results

| | Under IFRS | | | Under Canadian GAAP | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2012 | 2011 | | 2011 | | 2010 | |
| | June | March | December | September | June | March | December | September |
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Revenue | 3,582 | 8,896 | 19,270 | 75,160 | 51,373 | 45,386 | 6,522 | (46,658) |
| Net earnings (net loss) | (675,032) | (699,230) | (1,150,642) | (443,251) | (488,636) | (384,846) | 3,477,401 | (330,057) |
| Net earnings (net loss) per share | | | | | | | | |
| Basic | (0.012) | (0.013) | (0.022) | (0.010) | (0.010) | (0.008) | 0.0695 | (0.0068) |
| Diluted | (0.012) | (0.013) | (0.022) | (0.010) | (0.010) | (0.008) | 0.0571 | (0.0068) |

Revenue essentially consists of interest earned for each quarter. Revenue for the fourth quarter of 2010 was negative mainly due to the reclassification of petroleum reserve assessment income of the first three quarters of 2010, which was charged against deferred exploration expenses. General and administrative expenses were fairly stable from quarter to quarter. The main changes in quarterly losses or earnings are explained as follows:

| | |
|---|---|
| 2010–December | Recognition of share-based compensation of $82,800 and a $5,158,607 gain on disposal of interests in certain licences. |
| 2011–February | Recognition of share-based compensation expense of $71,400. |
| 2011–May | Recognition of share-based compensation expense of $160,750. |
| 2011–September | Restatement of all share-based compensation for the year using the graded vested method; this restatement had a non-monetary impact of $185,258. |
| 2011–December | Recognition of share-based compensation expense of $558,992. |
| 2012–March | Recognition of share-based compensation expense of $80,700. |
| 2012–June | Recognition of the bonus paid to employees and management in the amount of $188,000. |

**10.4 Related party transactions**

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

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

**Transactions with key management personnel**

Key management personnel remuneration includes the following expenses:

| | Nine months ended June 30 | |
|---|---|---|
| | 2012 | 2011 |
| | $ | $ |
| Short-term employee benefits: | - | - |
| Salaries and benefits | 419,135 | 270,265 |
| Attendance fees | 94,915 | 84,484 |
| Total short-term benefits | 514,050 | 354,749 |
| Share-based payments | 410,944 | 435,726 |
| Total remuneration | 924,994 | 790,475 |

**Related companies**

Transactions were carried out with two companies whose main officer (holding a minority interest) also serves on Pétrolia's board:

| | Nine months ended June 30 | |
|---|---|---|
| | 2012 | 2011 |
| | $ | $ |
| Statement of financial position: | | |
| Exploration and evaluation assets | 2,394 | - |
| Income: | | |
| Other expenses | 6,830 | 7,052 |

Accounts receivable from these companies is $26,067 at June 30, 2012 (2011 – $28,239).

Transactions were carried out with a director acting as a consultant for the Company:

| | Nine months ended June 30 | |
|---|---|---|
| | 2012 | 2011 |
| | $ | $ |
| Statement of financial position: | | |
| Exploration and evaluation assets | 2,062 | 3,469 |

The balance owed to this director is $0 as at March 31, 2012 (2011 – $0).

The Company entered into the following transactions with a company whose director also sits on Pétrolia's Board:

| | Nine months ended June 30 | |
|---|---|---|
| | 2012 | 2011 |
| | $ | $ |
| Income: | | |
| Salaries and benefits | 2,716 | 17,193 |
| Office supplies | 700 | 800 |

The balance due from this company as at June 30, 2012 is $2,900 (2011 – $808).

The Company entered into the following transactions with a close relative of a member of management, who provided services to the Company:

| | Nine months ended June 30 | |
|---|---|---|
| | 2012 | 2011 |
| | $ | $ |
| Statement of financial position: | | |
| Property, plant and equipment | 8,607 | 17,919 |
| Income: | | |
| Office maintenance | 4,806 | - |

The balance owing this supplier is $0 as at June 30, 2012 (2011 – $0).

Management considers that these transactions were concluded on an arm's length basis. These transactions took place in the normal course of business and were measured at their exchange value, which is the consideration established and accepted by related parties.

**Environment and letters of guarantee**

The Company's operations are subject to environmental protection legislation. Environmental consequences are difficult to predict, whether in terms of their outcomes, dates or impact. Currently, to the best of management's knowledge, the Company is operating in compliance with current legislation. Letters of guarantee in the amount of $1,080,000 were issued in favour of the Ministère des Ressources naturelles to guarantee the work to shut down certain sites.

These letters are secured by guaranteed investment certificates (GICs) in an equivalent amount.

On January 5, 2012, a motion to institute proceedings (action on account) was filed against the Company. The amount claimed is $198,832. The Company plans to contest the claims made in the motion since the supplier is unable to provide sufficient proof and documentation to justify the amounts invoiced. If the Court finds against the Company, there will be no impact on its financial results as the Company has made a provision for the full amount.

**10.5 Standards and interpretations issued but not yet effective**

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2013, with earlier application permitted:

- IFRS 9, *Financial Instruments*, covers the classification and measurement of financial assets and financial liabilities.
- IFRS 10, *Consolidated Financial Statements*, ("IFRS 10") and IFRS 12, *Disclosure of Interests in Other Entities*, ("IFRS 12"). The first standard replaces IAS 27, *Consolidated and Separate Financial Statements* and SIC-12, *Consolidation – Special Purpose Entities*, and establishes principles for identifying when an entity controls other entities. The second standard establishes comprehensive disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, and special purpose vehicles.
- IFRS 11, *Joint Arrangements*, ("IFRS 11") replaces IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*, and requires a single method to account for interests in jointly controlled entities.
- Amended and re-titled IAS 27, *Separate Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*, as a consequence of the new IFRS 10, IFRS 11 and IFRS 12.
- IFRS 13, *Fair Value Measurement,* provides a single source of fair value measurement and disclosure requirements in IFRS.
- Amendments to IAS 1, *Presentation of Financial Statements*, to require entities to group items within other comprehensive income that may be reclassified to net income.

The Company is currently evaluating the impact of adopting these standards and amendments on its financial statements.

## 10.6 Change in accounting standards

### Transition to IFRS

The Company adopted International Financial Reporting Standards (IFRS) for its 2012 fiscal year, as required by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. The first complete set of annual financial statements in accordance with IFRS will be those for the year ended September 30, 2012, including comparative information for the year ended September 30, 2011.

The Company provided information on its transition to IFRS in Notes 26 and 27 to its interim financial statements for the three-month period ended December 31, 2011. It gave a detailed description of its transition to IFRS, specifically the reconciliation of each item in financial statements initially prepared according to Canadian GAAP and those prepared according to IFRS.

*Below are the key elements stemming from the transition:*

IFRS 1 (*First-time adoption*) provides guidance to entities on the general approach to be taken when first adopting IFRS. The underlying principle of IFRS 1 is retrospective application of IFRS, such that the opening balance sheet in the comparison financial statements is restated as though the Company had always applied IFRS, with the net incidence presented as a readjustment of the balance of retained earnings. However, IFRS 1 stipulates certain mandatory exceptions and authorizes certain optional exemptions to the retroactive application of these standards. Moreover, there are major differences between the previous accounting methods compliant with Canadian GAAP and the new ones compliant with IFRS. The following section provides a brief description of the prescribed exceptions, the exemptions used, and the differences between accounting methods compliant with GAAP and the new methods compliant with IFRS that have an impact on the Company.

***First-time adoption – applicable exceptions and exemptions***

At the time of the transition, IFRS 1 dictates certain mandatory exceptions and optional exemptions to complete retroactive application. The following exceptions and exemptions were adopted by the Company:

*Mandatory exceptions*

a) Estimates
The estimates established by the Company according to IFRS as at the date of transition to IFRS are consistent with the estimates established on the same date according to the accounting standards in effect before the changeover, after adjustments to reflect all differences between accounting methods, where applicable.

b) Derecognition of financial assets and liabilities
The financial assets and liabilities that were derecognized before October 1, 2010, according to GAAP, were not recorded according to IFRS.

*Optional exemption*

The Company decided not to retroactively apply IFRS 2—“Share-based Payment”—to stock options granted before November 7, 2002, or to options granted after November 7, 2002, whose rights became acquired before the transition date, i.e. October 1, 2010.

### 10.7 Change in accounting standards

The transition exemption elected by the Company for the transition from Canadian GAAP to IFRS as well as the additional information on an IFRS basis for the year ended September 30, 2011 considered relevant to an understanding of the interim financial statements for the three-month period ended December 31, 2011 are summarized in Note 26.

The effect of the Company’s transition from Canadian GAAP to IRFS as at June 30, 2011 and for the three and nine months then ended is presented as follows:

A) Reconciliation of equity and comprehensive income reported under Canadian GAAP and IFRS

B) Adjustment to the statement of cash flows

C) Notes to the reconciliations

## *A) Reconciliation of equity and comprehensive income reported under Canadian GAAP and IFRS*

### Statement of financial position as at June 30, 2011

| Canadian GAAP items | Previous Canadian GAAP | | Effect of transition to IFRS | IFRS | IFRS items |
|---|---|---|---|---|---|
| | $ | | $ | $ | |
| **ASSETS** | | | | | **ASSETS** |
| **CURRENT ASSETS** | | | | | **CURRENT** |
| Cash and cash equivalents | 5,690,762 | | - | 5,690,762 | Cash and cash equivalents |
| Receivables | 3,628,483 | | - | 3,628,483 | Receivables |
| Inventories | 67,248 | | - | 67,248 | Inventories |
| Prepaid expenses | 54,374 | | - | 54,374 | Prepaid expenses |
| Investments cashable during the next fiscal year | 754,331 | | - | 754,331 | Investments cashable during the next fiscal year |
| | 10,195,198 | | - | 10,195,198 | Total current assets |
| | | | | | **NON-CURRENT** |
| Capital assets | 690,295 | | - | 690,295 | Property, plant and equipment |
| | | a) | 25,519,059 | 25,524,055 | Exploration and evaluation assets |
| | | c) | 4,996 | | |
| Oil and gas properties | 3,158,029 | | (3,158,029) | - | |
| Deferred exploration expenses | 22,361,030 | | (22,361,030) | - | |
| | 26,209,354 | | 4,996 | 26,214,350 | Total non-current assets |
| | 36,404,552 | | 4,996 | 36,409,548 | Total assets |
| **LIABILITIES** | | | | | **LIABILITIES** |
| **CURRENT LIABILITIES** | | | | | **CURRENT** |
| Trade and other payables | 1,361,776 | | - | 1,361,776 | Suppliers and other creditors |
| Loan | 2,243,310 | | - | 2,243,310 | Loans and borrowings |
| | 3,605,086 | | - | 3,605,086 | |
| | | | | | **NON-CURRENT** |
| Future taxes | 2,442,437 | | - | 2,442,437 | Deferred tax liabilities |
| | 6,047,523 | | - | 6,047,523 | Total liabilities |
| **SHAREHOLDERS' EQUITY** | | b) | 2,793,592 | | **EQUITY** |
| | | b) | (637,500) | | |
| Share capital | 29,244,780 | e) | (28,315) | 31,372,557 | Share capital |
| | | | 185,264 | | |
| Contributed surplus – Stock options | 1,371,762 | d) | 903,797 | 2,460,823 | Other components of equity |
| Contributed surplus – Expired stock options | 903,797 | d) | (903,797) | - | |
| | | b) | (2,793,592) | | |
| | | c) | (180,268) | | |
| | | b) | 637,500 | | |
| Deficit | (1,163,310) | e) | 28,315 | (3,471,355) | Deficit |
| | 30,357,029 | | | 30,362,025 | Total equity |
| | 36,404,552 | | | 36,409,548 | Total liabilities and equity |

## Statement of income and comprehensive income for the three-month period ended June 30, 2011

| Canadian GAAP items | Previous Canadian GAAP | Effect of transition to IFRS | IFRS | IFRS items |
|---|---|---|---|---|
| | $ | $ | $ | |
| **REVENUE** | | | | **OTHER REVENUE** |
| Project management | 17,708 | - | 17,708 | Project management |
| Interest income | 33,665 | - | 33,665 | Revenue from cash and cash equivalents |
| | 51,373 | - | 51,373 | |
| **OPERATING AND ADMINISTRATIVE EXPENSES** | | | | **ADMINISTRATIVE EXPENSES** |
| Share-based compensation | 160,750 | 183,875 | 344,625 | Share-based compensation |
| Salaries and benefits | 433,119 | - | 433,119 | Salaries and benefits |
| Insurance | 15,569 | - | 15,569 | Insurance |
| Travel | 43,816 | - | 43,816 | Travel |
| Office supplies | 15,297 | - | 15,297 | Office supplies |
| Training | 1,300 | - | 1,300 | Training |
| Board of Directors expenses | 48,840 | - | 48,840 | Board of Directors fees |
| Information for shareholders | 8,694 | - | 8,694 | Information for shareholders |
| Interest and bank fees | 21,841 | - | 21,841 | Interest and bank fees |
| Office rent | 31,999 | - | 31,999 | Office rent |
| Promotion and entertainment | 16,582 | - | 16,582 | Promotion and entertainment |
| Professional fees | 49,484 | - | 49,484 | Professional fees |
| Telecommunications | 5,402 | - | 5,402 | Telecommunications |
| Depreciation of capital assets | 27,134 | - | 27,134 | Depreciation of property, plant and equipment |
| Other expenses | 102 | - | 102 | Other expenses |
| Allocation to deferred exploration work | (268,315) | - | (268,315) | Allocation to exploration and evaluation assets |
| | 611,614 | 183,875 | 795,489 | |
| **OTHER ITEMS** | | | | **OTHER ITEMS** |
| Gain (loss) on disposal of interest in certain licences | (71,851) | - | (71,851) | Gain (loss) on disposal of interest in certain licences |
| | (632,092) | 183,875 | (815,967) | |
| **EARNINGS BEFORE INCOME TAXES** | | | | **NET INCOME BEFORE INCOME TAXES** |
| Future income taxes | (143,456) | - | (143,456) | Deferred tax expense |
| **NET INCOME AND COMPREHENSIVE INCOME** | (488,636) | | (672,511) | **NET INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD** |
| **BASIC EARNINGS PER SHARE** | (0.010) | | (0.013) | **BASIC EARNINGS PER SHARE** |
| **DILUTED EARNINGS PER SHARE** | (0.010) | | (0.013) | **DILUTED EARNINGS PER SHARE** |

## Statement of income and comprehensive income for the nine-month period ended June 30, 2011

| Canadian GAAP items | Previous Canadian GAAP | Effect of transition to IFRS | IFRS | IFRS items |
|---|---|---|---|---|
| | $ | $ | $ | |
| **REVENUE** | | | | **OTHER INCOME** |
| Project management | 17,708 | - | 17,708 | Project management |
| Interest income | 85,574 | - | 85,574 | Revenue from cash a nd cash equivalents |
| | 103,282 | - | 103,282 | |
| **OPERATING AND ADMINISTRATIVE EXPENSES** | | | | **ADMINISTRATIVE EXPENSES** |
| Share-based compensation | 314,950 | 180,268 | 495,218 | Share-based compensation |
| Salaries and benefits | 1,253,256 | - | 1,253,256 | Salaries and benefits |
| Insurance | 42,475 | - | 42,475 | Insurance |
| Travel | 137,012 | - | 137,012 | Travel |
| Office supplies | 54,016 | - | 54,016 | Office supplies |
| Training | 6,713 | - | 6,713 | Training |
| Board of Directors expenses | 108,034 | - | 108,034 | Board of Directors fees |
| Information for shareholders | 69,852 | - | 69,852 | Information for shareholders |
| Interest and bank fees | 66,584 | - | 66,584 | Interest and bank fees |
| Office rent | 90,641 | - | 90,641 | Office rent |
| Promotion and entertainment | 69,863 | - | 69,863 | Promotion and entertainment |
| Professional fees | 155,291 | - | 155,291 | Professional fees |
| Telecommunications | 21,930 | - | 21,930 | Telecommunications |
| Depreciation of capital assets | 57,919 | - | 57,919 | Depreciation of property, plant and equipment |
| Other expenses | 78,525 | - | 78,525 | Other expenses |
| Allocation to deferred exploration work | (808,446) | - | (808,446) | Allocation to exploration and evaluation assets |
| | 1,666,615 | 180,268 | 1,846,883 | |
| **OTHER ITEMS** | | | | **OTHER ITEMS** |
| Gain on disposal of interest in certain licences | 5,386,457 | - | 5,386,457 | Gain on disposal of interest in certain licences |
| | 5,386,457 | - | 5,386,457 | |
| **EARNINGS BEFORE INCOME TAXES** | 3,823,124 | (180,268) | 3,642,856 | **NET INCOME BEFORE INCOME TAXES** |
| Future income taxes | (1,219,204) | - | (1,219,204) | Deferred tax expense |
| **NET INCOME AND COMPREHENSIVE INCOME** | 2,603,920 | (180,268) | 2,423,652 | **NET INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD** |
| **BASIC EARNINGS PER SHARE** | 0.052 | | 0.048 | **BASIC EARNINGS PER SHARE** |
| **DILUTED EARNINGS PER SHARE** | 0.046 | | 0.043 | **DILUTED EARNINGS PER SHARE** |

**_B) Statement of cash flows_**

Under Canadian GAAP, interest paid and received was presented in the notes. Under IFRS, interest is classified under investing and financing activities. There are no other material adjustments to the statements of cash flows. The components of cash and cash equivalents under previous Canadian GAAP are similar to those presented under IFRS.

**_C) Notes to the reconciliations_**

The following notes explain the principal differences between previous Canadian GAAP and the IFRS accounting policies applied by the Company.

*a) Exploration and evaluation assets*

The items “Oil and gas properties” and “Deferred exploration costs” have been grouped for presentation purposes under “Exploration and evaluation assets.”

*b) Accounting for flow-through shares*

Under previous Canadian GAAP, the entire proceeds received on the issuance of flow-through shares were credited to share capital. When the tax deductions associated with exploration expenditures were renounced for income tax purposes, a deferred tax liability was recognized for the taxable temporary difference that arose, and the related charges were treated as share issuance costs.

Under IFRS, the issuance of flow-through shares is accounted for similarly to the issuance of a compound financial instrument. The liability component represents the obligation to revert the tax benefit to the investors. Proceeds from the issuance of shares by flow-through private placements are allocated between shares issued and a liability using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and any residual in the proceeds is allocated to the liability. The liability component is reversed in income as recovery of deferred income taxes when the eligible expenses are incurred.

As there is no exemption under IFRS 1 for first-time adopters regarding flow-through shares, the treatment under IFRS needs to be applied retroactively.

*Effect:*

Eligible expenses having been incurred, a liability of $637,500 was transferred from share capital to retained earnings on October 1, 2010. In addition, the deferred tax liability, at $2,793,592, was also transferred from share capital to retained earnings.

*c) Share-based payments*

Under previous Canadian GAAP, the fair value of share-based awards with graded vesting was calculated using the straight-line method over the length of service required for vesting. Forfeitures of stock options were recognized as they occurred.

Under IFRS 2, each tranche of a share-based award with different vesting dates is considered a separate grant for the fair value calculation. Each award is recognized according to the foregoing. In addition, the Company is required to estimate the number of forfeitures, which is reviewed if subsequent information indicates that the actual number of share-based payments is probably different from the estimated number.

The Company decided not to retroactively apply IFRS 2—“Share-based Payment”—to stock options granted before November 7, 2002, or to options granted after November 7, 2002, whose rights became acquired before the transition date.

*Effect:*

There was no effect at October 1, 2010.

On June 30, 2011, an increase of $183,875 in share-based compensation was recorded in income for the period.

*d) Presentation differences*

Certain presentation differences between the accounting practices in effect before the changeover and IFRS have no effect on the income presented or on equity, specifically regarding contributed surplus – expired stock options.

As the following tables show, some items are described differently in IFRS (renamed) compared to the previous GAAP terms. These presentation differences have no effect on the comprehensive income presented or on shareholders’ equity.

*e) Change in rates used to calculate deferred income taxes*

Under previous Canadian GAAP, an entity had to show in income the changes previously brought to tax rates and tax laws for amounts previously recognized in other items of comprehensive income or equity.

IFRS requires that certain items be directly recognized in equity, notably a change in the tax rate or other tax rule that affects a deferred tax asset or liability related to an item that was previously recognized in equity.

*Effect:*

On October 1, 2010, the amount of $28,315 was transferred from retained earnings to share capital.

## 10.8 Risk factors

### Oil and gas exploration risks

The Company's activities consist of acquiring and exploring oil and gas properties in the hopes of finding economically feasible deposits. The Company's properties are currently at the exploration stage and contain no known commercially viable deposits. As such, it is unlikely that the Company will realize any short- or medium-term profits. Any future profitability for the Company will depend on the discovery of an economically viable oil or gas deposit, and even if one were discovered, there is no guarantee that its operation would be profitable.

### Environmental regulations and requirements

The Company's activities require obtaining permits from various government authorities, and are governed by laws and regulations concerning exploration, development, production, exports, income tax, labour standards and occupational safety, as well as the environment and other issues. Nothing allows us to plan with certainty the impact these laws and regulations and their amendments will have on the Company's operations.

Supplemental costs and delays may stem from the need to comply with legislation. If the Company cannot obtain or renew the necessary permits or approvals, it could be forced to scale down or cease its exploration or development activities.

### Capital needs

The exploration, development, processing and working of Company properties will require considerable additional financing. The only sources of financing available to the Company are loans and the issue of additional capital shares. There is no guarantee that this financing would be available to the Company or that it would be available under favourable conditions or sufficient to meet its needs, all of which could have a negative impact on the Company's business and financial situation. If it were unable to obtain sufficient funding, the Company may have to delay or indefinitely postpone exploration, development or production work on one or all of its properties and it may ultimately lose its interest in a given property.

### Commodity prices

A decrease in oil and gas prices has already had and could continue to have a materially adverse effect on the price of the Company's shares, on its financial results and on its oil and gas exploration, development and extraction activities.

### Insurance

The Company's activities are subject to certain risks and dangers, including difficult environmental conditions, industrial accidents, labour conflicts, unexpected or unpredictable geological conditions, land or talus slides, rock slides, and natural phenomena such as adverse weather conditions, flooding and earthquakes. These events could cause injuries or death, environmental or other damage to Company property or production facilities, or property belonging to other companies, operating delays, financial losses and possible legal liability.

### Going concern

The Company's future depends on its ability to finance its activities and develop its assets. Failure to secure sufficient funding could mean the Company may not be able to continue its activities, realize its assets and settle its liabilities in the normal course of business in the foreseeable future.

## 10.9 Judgments, estimates and assumptions

The preparation of financial statements requires management to make estimates, assumptions and judgments about the accounting and evaluation of assets, liabilities, revenues and expenditures.

The actual results are likely to differ from the estimates, assumptions and judgments made by management, and will seldom equal the estimated results. The significant areas of estimation uncertainty to be considered by the Company’s management in preparing the financial statements are described below.

### Depreciation of exploration and evaluation assets

Judgment is required to determine impairment loss or reversal indicators, as well as to establish the recoverable amount in the event a depreciation test is needed. If there is an indicator of an impairment loss or reversal of an asset or a cash-generating unit, the recoverable amount is estimated and the impairment loss or reversal is reported insofar as the accounting amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of an asset's fair value less costs to sell and its value in use.

For each property, management determines whether the facts and circumstances could indicate an impairment loss or reversal. The facts and circumstances that it considers include, but are not limited to the following:

(a) The period during which the entity has the right to explore a specific area has expired or will expire in the near future, and is not expected to be renewed;

(b) Significant exploration and evaluation expenses for oil resources in the specific area are neither planned nor scheduled in the budget;

(c) Exploration and evaluation of oil resources in the specific area did not lead to the discovery of commercially viable volumes of oil resources and the entity decided to cease activities in the specific area;

(d) Sufficient data exist to indicate that, although development in the specific area is likely to continue, the accounting amount of the exploration and evaluation assets will probably not be entirely recovered following successful development or a sale. When an indicator of an impairment loss or reversal is determined to exist, management must evaluate the recoverable amount of the asset or the cash-generating unit; to do so, it must make assumptions related to future events and circumstances.

These assumptions are based on the Company's exploration and evaluation program, which specifically considers whether the results of exploration work justify additional investments, the Company's interests in oil and gas rights have been confirmed, the Company has the capacity to obtain the necessary financing to develop and produce resources in a profitable manner, and whether the disposal of properties will be made at an amount greater than the carrying value. Actual results may differ and give rise to material adjustments in the Company’s assets during the following fiscal year.

No impairment loss or recovery was recorded for the periods in question.

**Deferred tax**

Judgement is required to evaluate the probability of a future taxable benefit. A deferred tax asset is recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the deferred unused tax credits and unused tax losses can be utilized.

**Going concern**

Judgment is required to evaluate the Company's ability to implement its strategy by financing its future working capital needs. More information on the Company as a going concern is presented in Note 3.

**Share-based payments**

The estimation of share-based payment and stock purchase warrant cost requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the selected model. The Company has made estimates as to the volatility of its own shares, the probable life of options and the time of exercise of those options. The Company uses the Black-Scholes model.

**Provisions and contingent liabilities**

Judgments are made as to whether a past event has led to a liability that should be recognized in the financial statements or disclosed as a contingent liability. Quantifying these liabilities requires exercising judgment and making estimates. These judgments are based on a number of factors including the nature of the claims or dispute, the legal process and potential amount payable, legal advice received, past experience and the probability of a loss being realized. Several of these factors are sources of estimation uncertainty.

**Technical feasibility and commercial viability of exploration and evaluation assets**

The decision regarding the technical feasibility and commercial viability of exploration and evaluation assets involves making a certain number of assumptions, such as the estimated reserves, forecast commodity price, expected production volumes and discount rates, which are all subject to material changes in the future. The Company has determined that no property has yet reached the technical feasibility and commercial viability stage.

## 10.10 Internal controls

Given that the Company is an emerging issuer, the officers do not have to provide certification concerning disclosure controls and procedures and internal control over financial reporting as defined in Regulation 52-109.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations in the certificates, more specifically, that the documents filed on SEDAR are reliable. The officers will ensure that once the convergence process is completed, they will still be able to sign their certification.

## 10.11 Other information

a) Supplemental documents

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

b) <u>Regulation 51-102 Section 5.2</u>

Deferred exploration expenses for the quarter ended June 30, 2012 are as follows:

| | Geology | Geophysics | Drilling | Analysis | Completion | General expenses | Fracturing | Options | Provision | Site maintenance | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Anticosti | 27,229 | 38,135 | 1,280 | 8,160 | - | 1,920 | - | - | - | - | 76,724 |
| Gastonguay | 320 | - | - | - | - | - | - | - | - | - | 320 |
| Gaspésia Marcel-Tremblay Edgar | 2,389 | 8,095 | - | - | - | 231 | - | - | - | - | 10,715 |
| Gaspé | 30,062 | 9,678 | 2,264 | - | - | 28,049 | - | - | - | 84 | 70,137 |
| Bourque | 29,700 | 720 | 70,171 | - | - | - | - | - | - | 8 | 100,599 |
| Haldimand | 11,420 | 20,604 | 118,829 | - | - | 6,803 | 12,218 | - | - | 56,726 | 226,600 |
| Tar Point | 174 | - | - | - | - | 728 | (2,102) | - | - | - | (1,200) |
| Dalhousie | - | - | - | - | - | - | - | - | - | - | - |
| | **101,294** | **77,232** | **192,544** | **8,160** | **-** | **37,731** | **10,116** | **-** | **-** | **56,818** | **483,895** |

Deferred exploration expenses for the quarter ended June 30, 2011 are as follows:

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

c) Regulation 51-102 Section 5.3

***Information on shares issued and stock options as at August 22, 2012:***

Common shares**:** 66,585,750 shares have been issued and are outstanding.

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

- 400,000 options exercisable at a price of $0.60 per share until February 12, 2013
- 327,500 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
- 672,500 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
- 1,266,000 options exercisable at a price of $1.52 per share until December 4, 2016
- 75,000 options exercisable at a price of $1.51 per share until February 22, 2017

Purchase warrants outstanding: Warrants are as follows:

- 5,545,777 warrants exercisable at a price of $1.78 per share until May 15, 2015

**Management's responsibility for financial information**

Management is responsible for Pétrolia's financial statements, which have been approved by the Board of Directors on recommendation of the Audit Committee. The financial statements have been prepared by Management in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and audited by the Company's auditors. The financial statements include certain amounts that are based on the use of estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

Rimouski, August 22, 2012

On behalf of the Board

(signed) *André Proulx*
André Proulx
President