Leader en exploration pétrolière au Québec

# Management Report
# for the period ended
# June 30, 2013

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**INTERIM MANAGEMENT REPORT FOR THE THIRD QUARTER ENDED JUNE 30, 2013**

This interim management report has been approved by the Board of Directors. It 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 year ended September 30, 2012.

This report presents the view of Management on current Company activities and is accompanied by the financial results as at June 30, 2013. It may also cite significant events that occurred after June 30, 2013 and provides an overview of activities planned for the coming months.

The reporting currency is the Canadian dollar (CAD) and all amounts presented in this report are in Canadian dollars.

## 1. DATE

The effective date of this management report for the period ended June 30 is August 22, 2013.

## 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. In order to achieve its objectives, the Company has to form partnerships with other industry stakeholders.

## 3. FORWARD-LOOKING STATEMENTS

Some of the statements made in this report may constitute forward-looking statements. Such statements relate to future events or future economic results anticipated by Pétrolia and are therefore subject to known and unknown risks, uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Accordingly, a decision to invest in Pétrolia's shares should at no time be based on these forward-looking statements. Pétrolia disclaims any intention or obligation to update these forward-looking statements.

## 4. HIGHLIGHTS OF THE THIRD QUARTER ENDED JUNE 30, 2013

- Pétrolia released the results of the evaluation of resources in place at the Bourque project carried out by Sproule Associates. The firm estimated the volume of wet natural gas initially in place at more than 1 Tcf (press release dated April 10, 2013);
- Pétrolia filed a Superior Court motion against the town of Gaspé related to a bylaw prohibiting the drilling of oil wells in the Haldimand sector (press release dated April 24, 2013);
- Pétrolia and Hydro-Québec reached an agreement in principle to release the terms of their agreement regarding the exploration licences on Anticosti Island (press release dated May 1, 2013);
- The Company entered into and then cancelled an engagement letter related to a private placement (press releases dated May 8 and 21, 2013);
- The Government of Quebec announced a draft regulation respecting water withdrawal and protection (press release dated May 23, 2013);
- Pétrolia announced positive results of core analyses from the Macasty Formation taken in 2011 on Anticosti Island (press release dated July 11, 2013);
- Pétrolia announced and completed a private placement of $1 million (press releases dated June 19 and July 10, 2013);
- The Company acquired licences in the Gaspé Peninsula and signed a partnership agreement with Saint-Aubin Énergie S.A.S, a subsidiary of Maurel & Prom and MPI (press release dated July 19, 2013);
- The Company repaid $2,179,380 of its bank debt.

## 5. STRATEGY AND OUTLOOK

The Company's objective is to discover marketable oil resources and put them into production as quickly as possible, with the goal of becoming profitable. In the pursuit of this mission, the Company never loses sight of the importance of the safety of individuals, environmental protection and community relations. 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, relying on best industry practices for its drilling activities. It also pays particular attention to community relations and the local socio-economic context in which it operates.

Pétrolia prides itself on being a responsible Quebec oil and gas company whose goal is to produce oil to meet a significant portion of Quebec's energy needs.

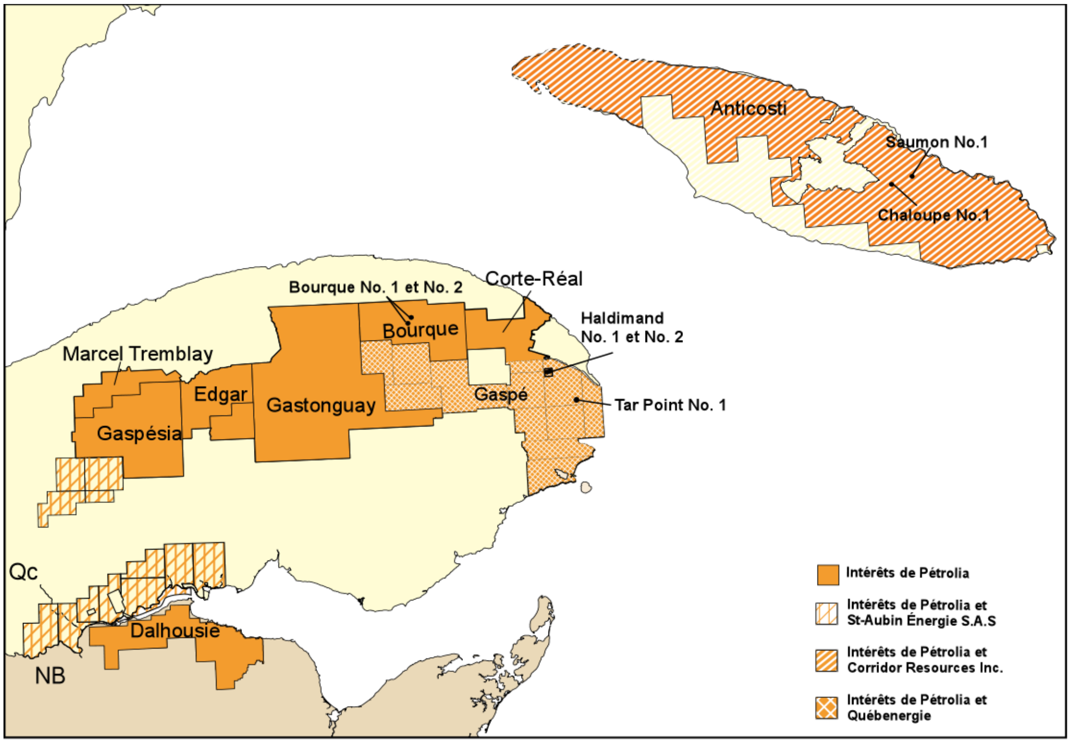
## 6. LICENCES AND PARTNERSHIPS

On July 19, 2013, Pétrolia announced that it had reached a 50/50 partnership agreement with Saint-Aubin Énergie S.A.S., a joint investment vehicle of Maurel & Prom and MPI, to develop 13 oil and gas exploration licences acquired from Gastem in the Gaspé Peninsula, totalling 1,892 km2. The partners also indicated that they are continuing discussions to extend their collaboration to other areas in Quebec where Pétrolia has interests. The partners agreed that Pétrolia will be responsible for carrying out the work.

The head offices of Maurel & Prom and MPI are in Paris. The two companies have a combined market capitalization of €1.8 billion. They are active in the field of onshore and offshore oil and gas production in ten countries on four continents. Their management teams are comprised of professionals with strong track records in the oil and gas industry.

The acquisition boosts Pétrolia's interests in Quebec to nearly 16,000 $km^2$, representing 22% of the Quebec territory under lease.

The following map shows the areas in which Pétrolia hold interests, as well as those covered by the three partnership agreements entered into by Pétrolia.




## 7. PROJECTS AND WORK

### 7.1. Haldimand property

Discovered in 2006, the Haldimand property is located on the peninsula of the same name on the outskirts of the town of Gaspé. An independent expert placed the best estimate (P50) of the resources initially in place at nearly 70 million barrels and the best estimate (P50) of the potentially recoverable (contingent) light oil at 7.7 million barrels.

**Objectives**

Putting the Haldimand deposit into production is a priority for the Company and may be one of the keys to oil and gas development in the Gaspé. Of all of Pétrolia's projects, Haldimand is the closest to production.

**Work**

A better understanding of the Haldimand reservoir and its production mechanism has been acquired through lab and field studies and analyses. The reservoir is made up of York River Formation sandstone intersected by a network of natural fractures that allow oil to flow freely. Pétrolia's work indicates that horizontal drilling will make it possible to intercept the most natural factures, which should ensure production without the need for fracturing.

Preparatory work for drilling at Haldimand 4 was completed in fall 2012. Drilling at Haldimand 4 was temporarily suspended following the adoption of a municipal bylaw in Gaspé.

At the start of the third quarter, on the basis of the legal opinion it obtained, Pétrolia filed a motion for declaratory judgment with the Superior Court. Pétrolia resorted to court action to resolve the dispute after the waiting period, when no alternative solution for protecting Pétrolia's rights was identified.

On May 29, 2013, the Government published a draft regulation respecting water withdrawal and protection. The draft has been published for consultation and is expected to enter into force by the end of the next quarter. Since drilling on Haldimand 4 was undertaken in accordance with industry standards and complies with the provisions of the draft regulation, the regulation's entry into force will not compromise the continuation of the planned work. Application of the regulation will render the bylaw adopted by the town of Gaspé inoperative, as the *Environment Quality Act* stipulates that municipalities cannot regulate an area covered by regulation under the Act. A decision to continue drilling will be made by the end of 2013.

Pétrolia has launched a website dedicated to the Haldimand project, allowing visitors to obtain information about the project and monitor its development: haldimand.petroliagaz.com.

**Environmental studies and work**

The Company is developing a scientific and environmental monitoring information acquisition program.

Pétrolia is working with scientists at Quebec universities. Professor René Lefebvre and his team at the INRS Eau, Terre, Environnement center have developed a program to acquire specific knowledge about the effect of the work on the physical environment. Launched in November 2011, the program will run for five years. Results of this work will be made public on a regular basis. Additional information will be available on Pétrolia's website.

Note that the draft regulation on water protection mentioned earlier stipulates that hydrogeological studies must be conducted. Although the draft regulation will not be retroactive, Pétrolia's decision to carry out the study is both wise and forward-thinking. In the case of Haldimand in particular, the Government has indicated that it wishes to conduct the study itself. Pétrolia agreed to the request from the Ministère du Développement durable, de l'Environnement, de la Faune et des Parcs (MDDEFP) to provide it with the data collected to date.

Pétrolia is very proud of the innovative and promising relationship it has developed with Quebec's universities from the earliest stages of its activities, as well as the universities' involvement with industry stakeholders.

### 7.2. Bourque project

The Bourque property is located 30 km east of the town of Murdochville and is very important to Pétrolia. In April 2013, following an analysis of the results of the 2012 drilling campaign by the independent firm Sproule, the volume of wet natural gas initially in place in four prospective zones located in the same geological formation was estimated at over one trillion cubic feet (1 Tcf) (press release dated April 10, 2013). The potential of this discovery increases the interest in Pétrolia's other licences in the Gaspé, where similar geological conditions exist.

During the last quarter, Pétrolia continued to develop a work program based on Sproule's recommendations. The purpose of the production tests is to identify the production characteristics of the Forillon Formation and better determine the resources in place and potentially recoverable volumes. This work program will be carried out when equipments necessary for the realization of the program will be available in Quebec.

**Objectives**

In April 2013, confirmation of the commercial potential for natural gas, condensate and oil in the naturally fractured zone made it possible to identify a new exploration target for this project.

Aside from the commercial potential of the project to Pétrolia, hydrocarbon production in this region would promote substantial economic development associated with raw material processing and the introduction of new industries to the Gaspé Peninsula.

**Drilling work**

The drilling work completed during the second quarter identified four prospects in the Forillon Formation, which are conventional low permeability carbonate reservoirs (tight gas carbonate reservoirs). The results for each of the prospects are provided in the table below.

**Bourque project [1,2]**
**Gross unrisked undiscovered gas initially in place**
**Estimated by Sproule International Limited**
**As at March 31, 2013**

| Prospect | Formation | Gas (Bcf) [2,3] | | | |
|---|---|---|---|---|---|
| | | Low [4] | Best [5] | High [6] | Mean [7] |
| | | (P90) | (P50) | (P10) | |
| Bourque North | Forillon | 125 | 367 | 1,099 | **524** |
| Bourque Central | Forillon | 33 | 118 | 433 | **194** |
| Bourque South | Forillon | 63 | 165 | 452 | **221** |
| Bourque 2 Area | Forillon | 26 | 75 | 207 | **102** |
| **Total** [8] | | | | | **1,041** |

1. Undiscovered hydrocarbons initially in place (equivalent to undiscovered resource) is the quantity of hydrocarbons estimated, at a given date, to be contained in an accumulation that remains to be discovered. The recoverable portion of hydrocarbons initially in place and not discovered is described as "prospective resource" and the rest as unrecoverable. Only volumes in place are presented here, since no development project aiming at recovering undiscovered hydrocarbons has been defined. **There is no certainty that any portion of the undiscovered resources, irrespective of risk, will be discovered and, if discovered, there is no certainty that they will be developed and, if developed, there is no certainty as to when such development will or will not take place and whether this development will be commercially viable for any portion of these resources.**

2. The estimated volume of undiscovered unrisked hydrocarbons is a raw estimate (100% of the whole project); no adjustment has been made to take into account the shares of interests over the territory covered by the estimate and before deduction of any royalty. **Pétrolia holds a 99% interest and the portion pertaining to it must be reduced accordingly.**

3. Bcf means billion cubic feet.

4. The low estimate is considered a conservative estimate of the quantity actually in place. If probabilistic methods are used, there should be at least a 90 percent probability (P90) that the quantities actually in place will equal or exceed the low estimate.

5. The best estimate is considered the best estimate of the quantity actually in place. If probabilistic methods are used, it is equally likely that the quantity actually in place will be greater or less than the best estimate and there should be at least a 50% probability (P50) that the quantities actually in place will equal or exceed the best estimate.

6. The high estimate is considered an optimistic estimate of the quantity actually in place. If probabilistic methods are used, there should be at least a 10 percent probability (P10) that the quantities actually in place will equal or exceed the high estimate.

7. Statistical aggregation is the process of probabilistically aggregating distributions that represent estimates of resource quantities at a reservoir, prospect or portfolio level. Arithmetic summation and statistical aggregation of the means are methods that yield similar results. From a statistical standpoint, arithmetic summation of low, best and high estimates is not appropriate. Both the arithmetic and statistical summation of the unrisked prospects may be misleading, because they assume success for each of the prospect entities. The chances of this occurring are extremely unlikely. Actual recovery will likely be less and may be significantly less, or even zero.

8. Volumes may not balance due to rounding.

Pétrolia has launched a website dedicated to the Bourque project, allowing visitors to obtain information about the project and monitor its development: bourque.petroliagaz.com.

## 7.3. Anticosti project

### Hydrocarbon source rock

Source rock oil has become the main objective on Anticosti Island due to its immense potential. In 2011, Pétrolia disclosed the estimate of oil resources in place in the Macasty shale provided by Sproule Associates Limited of Calgary. The estimate, produced in accordance with the definitions of reserves and resources given in the Canadian Oil and Gas Evaluation Handbook (COGEH) and National Instrument 51-101, placed the best estimate of the total volume of hydrocarbons initially in place in the holdings in which Pétrolia has interests at 30.9 billion barrels of oil equivalent.

**Work**

In 2012, the partners completed a campaign involving three exploration coreholes to better evaluate the source rock potential of the Macasty Formation on Anticosti Island. Three cores were taken, all from the western part of the island.

Pétrolia (and its partner) announced the results of analyses of the cores taken in 2012, as well as samples from 14 older wells spread across Anticosti Island. The analyses covered thermal maturity (Rock Eval), hydrocarbon concentrations present in the rock ($S_1$), petrophysical parameters and mineralogy (press release dated July 11, 2013). The thermal maturity study was conducted by Rudolf Bertrand (Ph.D.), while the other analyses were performed by Weatherford and TerraTek Labs. The results are better than those used by Sproule in its 2011 resource assessment.

The main results obtained are as follows:

- Impressive average values for total organic carbon (TOC) of nearly 4.0% over the whole thickness of the Macasty Formation (higher than the Utica Formation in Ohio);
- The hydrocarbon concentrations present in the rock indicate favourable potential for hydrocarbon production, i.e. 4.48 mg/g at Princeton Lake, 3.20 mg/g at Highcliff and 2.21 mg/g at Oil River; and
- The thermal maturity characterization confirms that the Macasty Formation present in Pétrolia's holdings and those in which it has an interest lie within the oil window.

The results of the petrophysical and mineralogy analyses are provided in the two tables below.

**Porosity and permeability**

| | Princeton Lake 2012 (Thickness 91.5 m) | | Highcliff 2012 (Thickness 57 m) | | Oil River 2012 (Thickness 29 m) | | Chaloupe No.1 (Thickness 41 m) | |
|---|---|---|---|---|---|---|---|---|
| | Mean | Maximum | Mean | Maximum | Mean | Maximum | Mean | Maximum |
| Hydrocarbon saturation (%) | 3.30 | 4.88 | 4.01 | 6.07 | 2.11 | 2.72 | 2.23 | 2.70 |
| Effective porosity (%) | 3.67 | 5.23 | 4.80 | 6.93 | 3.09 | 4.42 | 2.68 | 3.51 |
| Permeability (mD) | 0.000138 | 0.000280 | 0.000167 | 0.000263 | 0.000110 | 0.000178 | 0.000075 | 0.000081 |

**Mineralogy**

| | | Pétrolia Princeton Lake 2012 (Thickness 91.5 m) | Pétrolia Highcliff 2012 (Thickness 57 m) | Pétrolia - Oil River 2012 (Thickness 29 m) |
|---|---|---|---|---|
| | | Mean | Mean | Mean |
| Clay minerals (%) | | 28.4 | 31.2 | 29.6 |
| Non-clay minerals (%) | | 71.6 | 68.7 | 70.4 |
| including: | Quartz (%) | 36.3 | 38.6 | 35.9 |
| | Carbonates (%) | 21.5 | 16.6 | 19.8 |

Pétrolia believes these results confirm the conservative nature of the resource estimates released in 2011.

The new data will aid in advancing the next stage of exploration and in positioning oil wells.

**Environmental studies**

The Company is also developing a scientific and environmental monitoring information acquisition program. In keeping with its desire to respect the environment and invest in research, Pétrolia has undertaken a hydrogeological study similar to the one on the Haldimand Peninsula and is participating in a research chair on white-tailed deer.

## 8. Other properties

Over the next few months, Pétrolia and Maurel & Prom's technical teams will work to develop a new exploration program for the licences acquired in the Gaspé Peninsula, covering an area of 1,892 $km^2$. Pétrolia will be responsible for carrying out the work.

Results of drilling on the Bourque project led the Company to revise all of the data regarding its Gaspé Peninsula holdings. The purpose of the revision is to identify the most favourable zones for discoveries similar to those of the Bourque project. This work will make it possible to develop a field work program. An implementation date has not yet been set for this program.

## 9. Operating results and cash position

For the third quarter, the Company's income consisted of interest income from cash of $9,794, compared with $46,848 for the same period of 2012, as well as project management income of $21,894 and rental income of $2,994, compared with $444 and $3,138 respectively for the same quarter of 2012.

During the quarter, the Company financed its tax credits receivable for the 2012 fiscal year by way of debt in the amount of $2,179,380.

As at June 30, 2013, the Company had cash and cash equivalents of $1,205,801, a decrease of $9,036,461 since September 30, 2012. The Company spent $14,187,473 on exploration and evaluation assets and $3,076,605 on its administrative activities.

As at June 30, 2013, working capital stood at $9,099,407. The Company's financial needs may be met in a number of ways in the future, including but not limited to the issuance of new debt or equity instruments, additional cost-cutting measures and/or the introduction of new partners.

## Analysis of operating and administrative expenses

Operating and administrative expenses dropped by $206,800 in the third quarter, mainly due to the cost of non-recurring activities undertaken in the third quarter of 2012, as well as a decrease in salaries and benefits.

The main differences in the operating and administrative expenses for the third quarter are:

- Share-based payments: an amount of $94,500 was recorded in the third quarter. This amount represents the third instalment in the share-based compensation granted in May 2011 under the graded vesting awards program.
- Salaries and benefits: Administrative expense-related payroll decreased from the same quarter of 2012, when performance bonuses were paid to employees and management.
- Professional fees: The professional fees expense decreased considerably, due to non-recurring fees for settlement of legal disputes, financing, hiring and recruiting staff.
- Depreciation of property, plant and equipment: The increase in the depreciation expense is mainly due to the depreciation of five reservoirs and of leasehold improvements to the new office space.

## Summary of quarterly results

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

| | 2013 | | 2012 | | | | 2011 | |
|---|---|---|---|---|---|---|---|---|
| | **June** | **March** | **December** | **September** | **June** | **March** | **December** | **September** |
| | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| Income | 24,888 | 27,759 | 41,127 | 93,806 | 50,430 | 48,451 | 78,489 | 75,160 |
| Profit or loss | (500,545) | (538,863) | (1,141,104) | (494,129) | (675,032) | (699,230) | (1,150,642) | (443,251) |
| Net earnings per share | | | | | | | | |
| Basic | (0.007) | (0.008) | (0.017) | (0.010) | (0.012) | (0.013) | (0.022) | (0.010) |
| Diluted | (0.007) | (0.008) | (0.017) | (0.010) | (0.012) | (0.013) | (0.022) | (0.010) |

Income essentially consists of interest earned and project revenue for each quarter. Operating and administrative expenses are fairly stable from quarter to quarter. The main changes in quarterly losses or earnings are explained as follows:

| | |
|---|---|
| 2011 – September | Restatement of all share-based payments for the year using the graded vesting method; this restatement had a non-monetary impact of $185,258; |
| 2011 - December | Recognition of share-based payment of $558,992; |
| 2012 - February | Recognition of share-based payment of $80,700; |
| 2012 - December | Recognition of share-based payment of $913,906; |
| 2013 - March | Recognition of share-based payment of $128,700; |
| 2013 - May | Recognition of share-based payment of $128,700. |

**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-month period ended June 30,** | |
|---|---|---|
| | **2013** | **2012** |
| | **$** | **$** |
| Short-term employee benefits: | | |
| Salaries and benefits | 543,191 | 419,135 |
| Attendance fees | 86,100 | 94,915 |
| Total short-term benefits | 629,291 | 514,050 |
| Share-based payments | 94,500 | 410,944 |
| Total remuneration | 723,791 | 924,994 |

During the 2013 reporting period, key management exercised 460,000 options (650,000 in 2012) granted under the share-based compensation plan. An amount of $120,000 was granted to two managers under the loan program for the exercise of share options. The loans have a maximum term of nine months and bear interest at the Bank of Canada one-day rate.

**Related parties**

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

| | Nine-month period ended June 30, | |
|---|---|---|
| | **2013** | **2012** |
| | **$** | **$** |
| Statement of financial position: | | |
| Exploration and evaluation assets | 9,128 | 2,394 |
| Statement of comprehensive income: | | |
| Other expenses | 6,885 | 6,830 |

The balance due from these companies was $4,631 at June 30, 2013 (June 30, 2012 – $26,067).

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

| | Nine-month period ended June 30, | |
|---|---|---|
| | **2013** | **2012** |
| | **$** | **$** |
| Statement of comprehensive income: | | |
| Salaries and benefits | 1,206 | 2,716 |
| Office supplies and transportation | 827 | 700 |

The balance due from this company was $233 at June 30, 2013 (June 30, 2012 – $2,900).

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

| | Nine-month period ended June 30, | |
|---|---|---|
| | **2013** | **2012** |
| | **$** | **$** |
| Statement of financial position: | | |
| Property, plant and equipment | - | 8,607 |
| Office maintenance | - | 4,806 |

The balance owing this supplier was $0 at June 30, 2013 (June 30, 2012 – $0).

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.

**Financial instrument disclosure**

**Risk management policy**

The Company's financial assets and liabilities expose it to various risks. The following analysis provides an assessment of the risks:

**Credit risk**

Financial instruments that potentially subject the Company to credit risk consist primarily of cash and cash equivalents and trade and other receivables. The Company's cash and cash equivalents are held with or are issued by first-class financial institutions. The majority of receivables are sums owed by governments, partners and related parties. Therefore, Management considers the risk of non-performance on these instruments to be very minimal.

**Liquidity risk**

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due or do so only at excessive cost. The Company finances its growth by issuing shares and selling interests in some of its oil assets. One of Management's main financial objectives is to maintain an optimal level of liquidity by actively managing its exploration activities. All of the Company's financial liabilities have a maturity of less than one year.

**Market risk**

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

a) Interest rate risk

Interest rate risk refers to the impact of interest rate fluctuations on the value of investments.

The Company is exposed to interest rate risk on its fixed-rate financial instruments. For the period ended June 30, 2013, an increase or decrease of 1% in the interest rates in effect at that date, with all other variables remaining equal, would have generated a profit or loss of $31,768 (2012 – $75,326).

**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 fund: Given its short-term maturity, the fair value corresponds to its cost.
As regards the loan, the carrying value approximates the fair value due to the variable interest rate on the debt.

Fair value hierarchy
Financial instruments recognized at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements.
The three levels of the fair value hierarchy are:

Level 1– Quoted prices (unadjusted) in active markets for identical assets or liabilities: cash is found at this level.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices): cash equivalents and investments are found at this level.

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

There was no transfer in the valuation of financial assets between levels 1 and 2 during the period.

**Judgments, estimates and assumptions**

For a complete description of the judgments, estimates and assumptions made by Management in the preparation of its annual financial statements, see Note 5 of the Financial Statements for the year ended September 30, 2012.

**Future changes in accounting policies**

For a complete description of future changes in accounting policies, see Note 3 of the Financial Statements for the year ended September 30, 2012.

**Significant accounting policies and transition to IFRS**

For a complete description and detailed presentation of the significant accounting policies used by the Company and the transition to IFRS, see Notes 4 and 26 of the Financial Statements for the year ended September 30, 2012.

**Capital management**

For a complete description of the Company’s capital management policy, see Note 20 of the Financial Statements for the year ended September 30, 2012.

## 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.

## Other information

a) Supplemental documents
Certain supplemental documents, including prior management reports and press releases, are available online at www.sedar.com in the documents section or on Pétrolia’s website at www.petroliagaz.com.

b) Exploration expenses for the nine-month period ended June 30, 2013 are detailed as follows:

| | **Geology** | **Geophysics** | **Drilling** | **Analysis** | **General expenses** | **Options** | **Site maintenance** | **Total** |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Anticosti | 52,281 | 29,120 | 124,152 | 58,655 | 30,218 | - | - | 294,426 |
| Gastonguay | 56 | - | - | - | - | - | - | 56 |
| Gaspésia Marcel-Tremblay Edgar | 1,556 | 1,520 | - | - | 56 | - | - | 3,132 |
| Gaspé | 6,542 | 3,920 | - | 1,950 | 7,581 | - | - | 19,993 |
| Bourque | 7,564 | 4,160 | 50,341 | 4,400 | 6,359 | - | - | 72,824 |
| Haldimand | 10,249 | 80 | 92,612 | - | 4,569 | - | 16,865 | 124,375 |
| Tar Point | - | - | - | - | 1,619 | - | - | 1,619 |
| Dalhousie | - | - | - | - | - | - | - | - |
| | **78,248** | **38,800** | **267,105** | **65,005** | **50,402** | **-** | **16,865** | **516,425** |

Exploration expenses for the nine-month period ended June 30, 2012 are detailed as follows:

| | **Geology** $ | **Geophysics** $ | **Drilling** $ | **Analysis** $ | **General expenses** $ | **Options** $ | **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 | 131,047 | - | 6,803 | - | 56,726 | 266,600 |
| Tar Point | 174 | - | (2,102) | - | 728 | - | - | (1,200) |
| Dalhousie | - | - | - | - | - | - | - | |
| | **101,294** | **77,232** | **202,660** | **8,160** | **37,731** | **-** | **56,818** | **483,895** |

c) *Information on shares issued, share options and warrants as at August 22, 2013:*

Common shares**:** 69,431,372 shares have been issued and are outstanding.

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

• 60,000 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

• 100,000 options exercisable at a price of $0.70 per share until July 11, 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

• 2,220,000 options exercisable at a price of $1.02 per share until February 22, 2017

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

- 242,958 warrants exercisable at a price of $1.42 per share until May 14, 2014
- 5,545,776 warrants exercisable at a price of $1.78 per share until May 15, 2015
- 714,286 warrants exercisable at a price of $1.00 per share until July 11, 2016

**Management's responsibility for financial information**

Management is responsible for Pétrolia's financial statements, which have been approved by the Board of Directors on recommendation of the Audit Committee. The financial statements have been prepared by Management in accordance with International Financial Reporting Standards 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 15, 2013
On behalf of the Board

(signed) André Proulx
André Proulx
President