Leader en exploration pétrolière au Québec

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

For the second quarter ended March 31, 2007

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MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS FOR THE SECOND QUARTER ENDED MARCH 31, 2007

This interim management discussion and analysis complies with Rule 51-102A of the Canadian Securities Administration regarding continuous disclosure for reporting issuers. It is an addition and supplement to the interim financial statements and should be read in conjunction with them and the audited financial statements for the fiscal years ended September 30, 2006 and 2005, and the annual management report when required. It presents the view of management on current Company activities and financial results, as well as a preview of the activities during the coming months.

1.1 Date

The present management discussion and analysis for the second quarter ended March 31, 2007, is prepared as of April 27, 2007.

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1.2 Nature of activities and overall performance

The Company is incorporated under Part 1A of the Quebec Companies Act. It has been listed on the TSX Venture Exchange since February 16, 2005. Exploration and development of oil and gas properties are the Company's primary activities. Moreover, to achieve its objectives, the Company has signed various agreements characteristic of the oil and gas industry.

The Company is currently evaluating and analyzing the Pétrolia-Haldimand #1 well. Initial production tests on this well have determined a stabilized rate of 34 barrels of Light Oil per day. Pétrolia is also negotiating an agreement to have the operator supervise the future work. Development work at Pétrolia-Haldimand #1 will resume as soon as the agreement is signed.

Following the recommendations by Sproule Associates Ltd. of Calgary made in 2003 and 2004, Pétrolia completed a regional seismic survey totaling 126 km on the Gaspésia and Edgar properties in December 2006.

During the coming years, Pétrolia's investments will be directed towards the evaluation and development of the Haldimand oil field. In addition, the Pétrolia properties make up a vast territory to be explored, and the Company is seeking industry partners to develop it.

In order to locate partners, Pétrolia has participated in several technical exhibitions, such as Québec-Exploration 2006, the Salon Investir Soi-même, Summer Nape 2006, and Nape 2007 (Houston). Through these activities, projects can be promoted to potential partners. Presentations about selected Gaspé and Gaspésia projects were made at these forums.

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The company is continuing its activities to obtain funding and remains confident about achieving this objective. Adequate financial resources would ensure, in particular, the development of the Haldimand oil field as well as the progress of the Company's other exploration programs.

The Company's only current revenue is derived from interest on term deposits, since the Company is in the exploration and production test stage with the Pétrolia-Haldimand #1 well. At the present time, funding is only available to the Company through issuance of its share capital.

During the quarter, the Company issued no share capital.

During the second quarter, the Company performed exploration work in the amount of $82,415. The Company incurred a loss of $84,747 ($0.0029 per share), compared to $195,831 ($0.0098 per share) for the corresponding quarter of the previous year. With the exception of stock-based compensation, general and administrative expenses increased in 2007 because of the Company's increased exploration activities.

1.3 Strategy and outlook

In 2007, Pétrolia plans to put the Pétrolia-Haldimand #1 well into production and continue the development of the Haldimand oil field. However, before continuing development work, the Company must finalize a Joint Operating Agreement (JOA) with the operator. Pétrolia has received technical studies conducted by technical advisors on data acquired during the drilling of the Pétrolia-Haldimand #1 well. These reports contain important technical insights into the Haldimand oil field characteristics.

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After signing the JOA, the next steps will include the evaluation of the lateral extent of the oil reservoir and the establishment of its characteristics (flow rate, pressure, permeability, and others). In order to reach these objectives, a three-dimensional (3-D) seismic survey is planned. The seismic data will be interpreted, and the results will be used to drill a confirmation well. In order to determine the reservoir's characteristics, the Pétrolia-Haldimand #1 well could be re-entered for the purpose of performing additional evaluation work. The seismic survey, the re-entry, and the confirmation well will make it possible to confirm minimum oil reserves (reserve-certification study) and specify the scope of future development work.

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During the quarter, Pétrolia acquired several seismic profiles of the Gaspé Property from surveys carried out in the early 1980s. For the most part, these vintage seismic data will be reprocessed in order to complement the processing done in the 1990s. The results will make it possible to take a fresh look at the property and determine new targets.

Consequently, Pétrolia is promoting a new exploration play called the Bourque project. It involves large Devonian reef reservoirs, similar to the prolific Leduc Formation in Alberta.

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The schedule for the Company's oil and gas exploration programs is presented in the Press Release section of our website.

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Gaspé Property

Number of permits (block)	23
Pétrolia's interest	100%
Back-in granted to Junex	50% of Pétrolia's interest
Surface area (km^2)	4,186 km^2
Access	Paved roads and good forest roads in mountainous region;
Characteristics	Most explored Gaspé region: 7 oil wells drilled since 1999; Sector's oil and gas potential demonstrated; Adequate regional seismic coverage;
Targets	Devonian reefs, limestones, and sandstones to a depth, between 600 and 2,500 meters;
Projected work	25 km^2 of 3-D seismic (Haldimand project); 2-D seismic (Bourque project); Reprocessing of vintage seismic data; One confirmation well; Reserve certification study.

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The Gaspé exploration permit block is located in the northeastern part of the Gaspé Peninsula, with a surface area of 4,186 km^2. Pétrolia holds a 100% interest. The Gaspé - Basin region is where most of the exploration work in the Gaspé has been conducted. The presence of oil seeps (60 sites) associated with the Devonian sandstones accounts for the attention given to this region by explorers for more than a century.

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Gaspésia Property

Number of permits (block)	12
Pétrolia's interest	100 %
Surface area	2,390 km^2
Access	Forest roads in mountainous region;
Characteristics	Low level of regional exploration: first work in 2002; Uneven regional seismic coverage, but calibrated to a borehole; No borehole on the property, but a few boreholes made in the sector, including two at the western limit of the Pétrolia permits; Sector has oil and gas potential;
Targets	Silurian reservoirs up to a depth of 3,500 meters;
Work carried out	Interpretation of the existing seismic survey; Completion of a regional seismic survey program over a total length of 126 km in December 2006. Processing of the data is in progress.
Projected work	Reprocessing of all the seismic lines in the sector and interpretation, incorporating geological, geophysical, and petrophysical data. An inversion of the potential-field data and a GOCAD 3-D model incorporating all available data will also be produced.

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In 2001, the Ministry of Natural Resources carried out a seismic survey that crossed the entire property, and Pétrolia commissioned a regional thermal-maturation and hydrocarbon potential study of the region's rocks by INRS-ETE. The consulting firm, Sproule Associates Ltd., then conducted a study incorporating all the available seismic and geological data. Following this study, recommendations were made to Pétrolia to develop the Gaspésia Property. The first step, intended to assess the hydrocarbon potential, was carried out by performing a regional seismic survey in December 2006. The data are currently being processed. The preliminary results indicate data of excellent quality. In a few months, the processing will be complete, and the data will be in a form that can be interpreted in order to identify possible oil targets.

The company is initiating exploration on the Gaspésia property. The results of the this work will be used to define favourable areas where Pétrolia will conduct detailed seismic surveys. The detailed seismic survey data will be used to define prospects. The report prepared by Sproule Associates identified the Val-Brillant and Sayabec formations as the main exploration objectives on the Gaspésia Property.

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Many American companies visited the Pétrolia booth during the NAPE trade fairs held in Houston in August 2006 and February 2007. Some companies noted similarities between the reservoirs identified on the Gaspésia Property and the hydrocarbon producers of the Appalachian Basin and, more particularly, in the Clinton, Medina, and Tuscarora formations. In order to confirm the similarity between the producing fields of the Appalachian Central Basin (US) and the formations encountered on the Gaspésia Property, Pétrolia commissioned and obtained an expert study. We will use this study to steer the exploration program and target the search for partners. Pétrolia considers this region to be favourable for the oil and gas discovery and sees it as part of the exploration strategy for discovering significant deposits.

1.4 Effectiveness of Disclosure Procedures and Controls

The President and Chief Executive Officer and the Vice President of Finance have designed or supervised the design of disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them, particularly during the period in which the annual filings are being prepared. They have also designed or supervised the design of internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

The assessment of the effectiveness of disclosure procedures and controls was conducted as of September 30, 2006, by the Company's officers, specifically the President and Chief Executive Officer and the Vice President of Finance, and under their supervision. Based on this assessment, these officers concluded that the Company's disclosure controls and procedures are effective in reasonably ensuring that the material information relating to the Company is made known to them by other members of the Company's staff on a timely basis.

1.5 Operating Results and Cash Position

For the quarter, the Company's revenues were limited to interest revenue on short-term investments of $12,212, compared with $22,595 for the quarter in 2006.

As of March 31, 2007, the Company had cash and cash equivalents of $652,801, i.e. a decrease of $1,053,464 for the quarter. The disbursements related to deferred exploration expenses of $760,414 and the operating expenses explain the variation in cash and cash equivalents.

As of March 31, 2007, working capital was $567,652. As of the same date, the Company had respected its commitments to its flow-through share subscribers by carrying out all of the exploration work that it had discontinued.

Under the terms of research permits granted by the Ministry of Natural Resources, the Company has agreed to pay fees in the amount of $256,391 between now and 2010. The minimum payments will be $51,372 for the current fiscal year and $68,340 for the next three fiscal years. In addition, the Company must perform work on its properties, on a yearly basis, for which the minimum costs vary according to the age of the permits; therefore, they correspond to $0.50 per hectare for the first year of the permit and increase annually by $0.50, ultimately reaching $2.50 per hectare beginning with the fifth year.

The minimum payments due are $53,414 for the current fiscal year, $150,000 in 2008, $790,000 in 2009, $880,545 in 2010, and $125,025 in 2011.

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1.6 Analysis of General and Administrative Expenses

General and administrative expenses for the quarter total $136,670, compared with $218,426 in 2006. The decrease of $81,756 between this quarter in 2007 and this quarter in 2006 is a result of the stock-based compensation of $130,605 recorded in 2006 and increased expenses in 2007 due to the Company's increasing activities.

1.7 Summary of quarterly results

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	2007	2006				2005		
	March $	December $	September $	June $	March $	December $	September $	June $
Revenue	12,212	22,338	12,233	11,596	22,595	9,929	103,687	20,519
Net earnings (Net loss)	(84,747)	(102,649)	(122,458)	(105,935)	(195,831)	(53,701)	56,319	(64,534)
Net earnings (Net loss) per share and diluted per share	(0.0029)	(0.0036)	(0.0049)	(0.0047)	(0.0098)	(0.0030)	0.0049	(0.0074)

Revenues are comprised of subsidies and interest earned for each of the quarters except September 2005, which also includes earnings from disposal of well rights. General and administrative expenses were relatively stable from one quarter to the next in 2006. The variations in quarterly losses or profits are explained as follows:

2005 – September: Recorded $99,905 from disposal of well rights and $28,651 for future income taxes;
2006 – March: Recorded stock-based compensation in the amount of $130,065.

1.8 Related-Party Transactions

During the quarter, a company in which one of the Pétrolia directors holds a minority interest billed for deferred exploration expenses in a total amount of $47,580 (2006 - $13,250), rent for $684 (2006 - $3,000), and a truck for $1,500. An amount of $36,407 is due as of March 31, 2007 (2006 – $7,020).

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In addition, the Company shares its administrative expenses with Ressources Appalaches, whose chief executive officer is the same for both companies.

	2007 $	2006 $
General and administrative expenses:		
Salaries and fringe benefits	45,635	35,509
Office supplies	600	2,250
Telecommunications	1,180	2,173

The balance due to this company as of March 31, 2007, is $37,130 (2006 – $12,340).

The Company rented a location from one of its directors for an amount of $4,350 (2006 - $0). No balance is due as of March 31, 2007 (2006 – $0).

These operations occurred in the normal course of business and were transacted in a manner and in amounts consistent with standard industry practices between arm's-length parties.

1.9 Risk and Uncertainty

The risks associated with the Company's activities are the same as those disclosed in the annual management report. The economic and sector factors remained unchanged for the most part. There was no significant change in the Company's second quarter.

1.10 Additional Information

a) Supplemental information

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

b) Rule 51-102A-section 5.3

Details of deferred exploration expenses for the three-month and six-month periods ended March 31, 2007, are presented in the statement of deferred exploration expenses within the Company's interim financial statements.

c) Rule 51-102A-section 5.4

Information on shares issued, warrants, and stock options as at April 27, 2007:

Common shares**:** 29,188,252 common shares were issued, of this number, 2,398,597 shares have been escrowed, thus leaving 26,789,655 shares outstanding.

Warrants: 2,626,369 warrants can be exercised as follows:

- 1,615,370 shares at a price of $0.55 per share until September 30, 2007;
- 1,010,999 shares at a price of $0.75 per share until November 30, 2007.

Broker warrants: 218,603 broker warrants can be exercised at a price of $0.38 per share until December 30, 2007.

Stock options: the stock options granted to its directors, senior management members, employees, and service suppliers are the following:

- 270,000 stock options exercisable at a price of $0.40 per share until March 15, 2010;
- 1,100,000 stock options exercisable at a price of $0.40 per share until February 3, 2011;
- 150,000 stock options exercisable at a price of $0.58 per share until May 10, 2011.

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1.11 Management's Responsibility for Financial Information

The financial statements for the periods ended on March 31, 2007, were prepared by management in accordance with Canadian generally accepted accounting principles and were approved by the Audit Committee. The accuracy and objectivity of these financial statements are the responsibility of management.

Rimouski, April 27, 2007

On behalf of the Board

(signed) *André Proulx*

André Proulx
President

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