Leader en exploration pétrolière au Québec

INTERIM MANAGEMENT
DISCUSSION AND ANALYSIS
For the second quarter ended
March 31, 2011

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INTERIM MANAGEMENT DISCUSSION AND ANALYSIS FOR THE SECOND QUARTER ENDED MARCH 31, 2011

This interim management discussion and analysis is an addition and supplement to the quarterly financial statements and should be read in conjunction with them and the audited financial statements for the fiscal years ended September 30, 2010 and 2009, and the annual management report when required.

This report presents the view of Management on current Company activities and financial results as at March 31, 2011. It may also cite significant events that occurred after March 31, 2011 and provides a preview of activities during the coming months.

HIGHLIGHTS FOR THE QUARTER

- Unveiling of analysis results for a core sample extracted from the Macasty Formation on Anticosti Island;

- Continuation of various analyses, in collaboration with external firms, notably the evaluation of the Haldimand reservoir and better options for its exploitation;

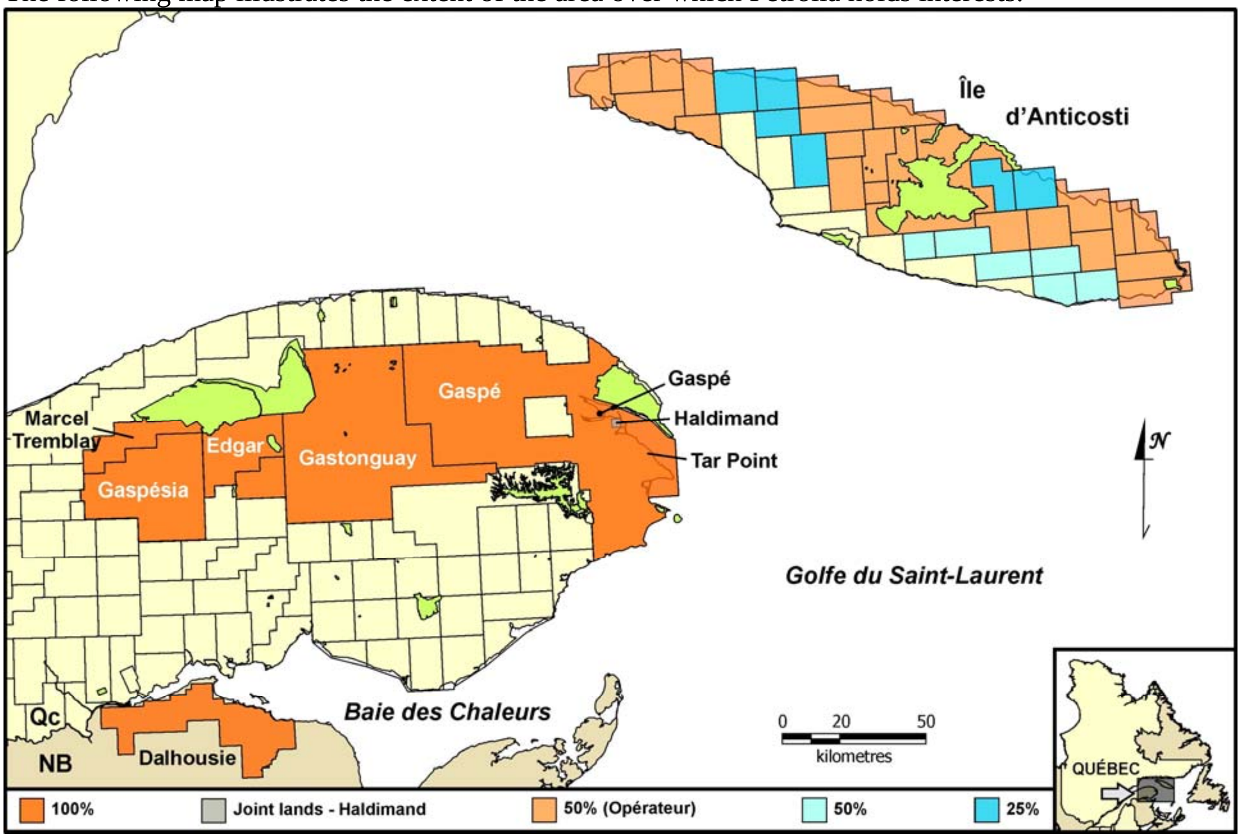
- Release of the BAPE report on shale gas and decision to conduct a Strategic Environmental Assessment (SEA).

PÉTROLIA'S INTERESTS

1.1 DATE

This management report for the three-month period ended March 31, 2011 is dated May 12, 2011.

The following map illustrates the extent of the area over which Pétrolia holds interests.



1.2 Nature of Activities

The Company, incorporated under the Quebec *Business Corporations Act*, is an oil and gas exploration company. It has been listed on the TSX Venture Exchange since February 16, 2005 under the symbol PEA. The Company's primary activities are the exploration and development of its oil and gas properties. To achieve its objectives, the Company has entered into various partnership agreements characteristic of the oil and gas industry.

1.3 Forward-looking Statements

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

1.4 Strategy and Outlook

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

1.4.1 GOVERNMENT DECISION

During the quarter ended March 31, 2011, the Government of Quebec unveiled a report prepared by the Bureau des audiences publiques sur l'environnement (BAPE) on shale gas in the Lower Saint Lawrence. It also announced that it would follow the BAPE recommendation to conduct a strategic environmental assessment on the development of this resource. The expert committee (in the process of being formed) charged with this mandate will also look at the presence of shale elsewhere in Quebec.

Details on how this study will be conducted have not yet been finalized. The consequences of this decision on the industry's activities also remain to be seen. This situation could affect equipment availability, the nature of the works, as well as the related work authorizations.

As regards oil exploration, the proposed regulations published in May subject fracturing to tighter rules and require operators to have more knowledge of hydrogeology. Pétrolia has already taken steps in this regard. However, the environmental evaluation does not seem to be required for drilling if shale is not involved.

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

1.4.2. GASPÉ

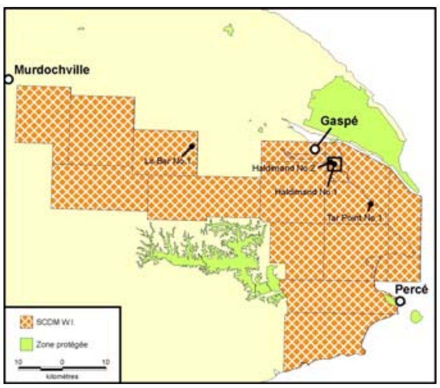
1.4.2.1 *Haldimand*

From the outset, Pétrolia dedicated a large part of its activities to exploring the geological formation known as the York River, confident that it would discover commercially producible oil reserves. Its expectations were met with the discovery of the Haldimand deposit, near Gaspé, whose recoverable oil resources are estimated at 7.7 million barrels over a territory of 9 km^2, although the seismic survey indicates that the deposit extends beyond this area.

At the end of the previous quarter, Pétrolia entered into a partnership agreement with Québénergie to speed up the development of the Haldimand deposit and surrounding territory (± 2,500 km^2). The partners have been working closely together on a work plan that should bring the field on production.

Placing this field on production poses numerous technical challenges that the Company and its partner are currently working to resolve with the help of specialized firms. An unconventional deposit, it is composed of sandstone in the York River Formation. Various options for placing the deposit on production were examined during the quarter. An action plan to move towards production is being finalized.

When this happens, Haldimand will become the leading commercial oil operation in Quebec.



Territory covered by the agreement with Québénergie

1.4.2.2 Tar Point project

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

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

The drilling results for Pétrolia-Tar Point No. 1 confirm high hydrocarbon potential as well as the value of the Haldimand Corridor. It also demonstrates Indian Cove’s potential for new exploration.

1.4.2.3 Bourque

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

Located 70 km west of Gaspé city, the Bourque project offers an opportunity to discover a significant deposit. The total depth of the targets varies between 2,300 and 3,000 m.

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

1.4.3 ANTICOSTI

Anticosti Island remains a priority because of its recognized potential. The extraction of a core sample in the summer of 2010 during the drilling of the Pétrolia Corridor Chaloupe No. 1 well opened the door to a new exploration possibilities in the territory, i.e. the Macasty shales.

Geologists have long known about the presence of oil shales on Anticosti Island. However, this exploration possibility only recently attracted international attention. Consequently, last summer Pétrolia and Corridor Resources attempted to ascertain the oil potential of the Macasty shales by extracting three contiguous core samples, totalling 27 m in length, in the Chaloupe well. The results were awaited with all the more anticipation since the area in question extends over a large part of Anticosti Island. Preliminary results of the core sample analyses unveiled this past quarter confirmed the oil potential of this shale.

1.4.4 *Revenues*

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

During the quarter, the Company did exploration work for an amount of $977,616, compared with $2,450,816 for the corresponding quarter of 2010. For the first quarter it incurred a net loss of $0.008 per share, compared to a net loss of $0.0092 per share for the same quarter in 2010.

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

1.5 EXPLORATION WORK

1.5.1 HALDIMAND PROJECT

The work performed to date reveals that Haldimand is a low permeability deposit. However, despite this characteristic of unconventional deposits, which usually require hydraulic fracturing to extract the resource, the Haldimand No. 1 well naturally produces about 10 barrels per day.

In addition to evaluating the known sector of the field, work will be done to determine whether the deposit extends beyond the area currently of interest to the parties involved and to determine its potential.

1.5.1.1 Production test

Pétrolia continued production testing of the Haldimand No. 1 well begun on June 30, 2010 in order to collect additional information on the deposit and to better identify its characteristics. A total of 142 m^3 (890 barrels) of oil were produced during this test period, compared to 102 m^3 (639 barrels) in the previous quarter. The well's production was placed in inventory throughout the quarter.

1.5.1.2 Field studies

Two studies were carried out during the quarter:

- A study of pressure build-up data for the Haldimand No. 1 and No. 2 wells, which shows that the production mechanism is associated with open fractures in compact rock. This mechanism explains the current production of the Haldimand No. 1 well. Drilling a horizontal well will allow us to validate this conclusion while favouring greater productivity;

- A study of the reservoir's natural fracturing mechanism, which allowed us to identify the fracture type and parameters contributing to current production.

1.5.1.3 Studies to conduct the fracturing tests

With a view to optimizing well productivity, Pétrolia is examining the possibility of conducting well stimulation tests with hydraulic fracturing. The test date will depend on the results of the analyses, availability of the required equipment, and the government approval process.

The studies underway involve:

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

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

Parallel to these studies, the Company is working on a plan to acquire scientific and environmental monitoring information.

1.5.1.4 Additional surveys

In order to obtain more specific data on the deposit's geometry and its extension outside the zone covered by the 3-D seismic survey, the partners agreed to carry out a magnetotelluric survey, which will show the zones most conducive to oil accumulation and to determine the natural fracture orientation.

As well, a geochemistry survey was carried out in the second quarter. The samples are being analyzed and the results will be available in the next quarter. The techniques used for these surveys are passive, meaning that they will not have any observable effect on the environment. The survey results will be compared to those of surveys previously carried out by the Company.

The program to purchase and reprocess the seismic lines acquired by Pétro-Canada in the 1980s continues. The raw data is now available. The reprocessing will begin in the next quarter and should greatly improve line quality.

Lastly, the gravity reversal survey mentioned in the previous quarterly report will continue with the aim of determining the depth of the oldest layers, which are not always included in seismic data.

SUMMARY: HALDIMAND

Surface area	900 hectares
Exploration costs as at March 31, 2011	$9,935,792
Partnership	• Pétrolia and Québénergie (64%), Junex 36% – over 9 km^2 • Pétrolia (50%) and Québénergie (50%) outside of the 9 km^2 perimeter • Pétrolia became the operator for the Haldimand Project on July 30, 2009 • Pétrolia acquired 100% interest on an area of 150 km^2 surrounding the Haldimand structure • Signing of the final agreement with Québénergie on December 20, 2010
Achievements	• Acquisition of seven seismic lines in 2005, with a total length of 34 km • Drilling of Pétrolia-Haldimand No. 1 in 2005 • 3-D seismic campaign in 2008, covering 13 km^2 • Soil-geochemistry survey in 2008 • Gravimetric survey in 2009 to refine the current models • Drilling of Pétrolia-Haldimand No. 2 in 2009 • Additional completion work and production test at the Pétrolia-Haldimand No. 1 well (February 2010) • Completion work and production test at the Haldimand No. 2 well (March 2010)

Work in progress	• Production test on Haldimand No. 1 • Geochemical survey • Magnetotelluric survey • Interpretation of previous production tests • Study of natural rock fracturing mechanism • Petrophysical studies and in-laboratory calibration • Laboratory studies to determine the best fracturing fluid • Organic matter evaluation • Processing of gravity field data • Reprocessing of seismic lines
Proposed work	• Finalize magnetotelluric survey to study fracture structure and orientation • Anisotropy study on 3D seismic data to determine fracture orientation • Hydraulic fracturing studies on existing wells • Drilling campaign

1.5.2 TAR POINT PROJECT

The characteristics found in the Indian Cover Formation make for an unconventional potential reservoir whose eventual exploitation will likely require hydraulic stimulation. The studies mentioned for the Haldimand project concerning the fracturing tests also apply to the Tar Point project.

SUMMARY: TAR POINT

Surface area	
Exploration costs as at March 31, 2011	$4,836,434
Achievements	• Soil geochemistry survey in 2008 • Acquisition of 5 seismic lines in 2008 • High-resolution airborne magnetic survey in 2008 • Gravimetric survey in 2009 • Drilling of Pétrolia Tar Point No. 1 • Completion work and production test
Work in progress	• Analysis of production test results • Consultation on stimulation strategy
Proposed work	• Fracturing and well commissioning

1.5.3 BOURQUE PROJECT

Over the last quarter, Pétrolia continued to search for a partner, which Management considers preferable for this project. However, the Company may decide to drill if sufficient financing is available.

In the second quarter, Pétrolia planned a soil geochemistry survey, which should be carried out in the next quarter. The aim is to find out whether the drilling targets selected for this project have a hydrocarbon footprint. The presence of hydrocarbons over the structures identified by the seismic survey would be another indication of the discovery potential in the West Point Formation reefs.

SUMMARY: BOURQUE

Surface area	• 74,267 hectares
Exploration costs as at March 31, 2011	• $3,591,213
Partnership	• 95% Pétrolia, 5% Pilatus Energy Canada • Searching for a partner
Achievements	• Purchase and interpretation of old seismic data • Acquisition of 3-D seismic data (65 km²) • Maturation study on organic matter • Interpretation and evaluation of the results of the 3-D seismic survey • Identification of two targets for drilling • Preparation of a drilling site
Work in progress	• None
Proposed work	• Geochemistry survey • Drilling campaign

1.5.4 ANTICOSTI ISLAND

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

1.5.4.1 *Traditional Targets*

To date, the primary objective consisted in exploring the oil potential of the carbonates of the Trenton and Black River groups in the central and eastern sectors of the island. This exploration possibility, involving what is known in industry jargon as “sags,” was very successful in the Appalachian Basin (Ontario and New York State). While the drilling carried out during the 2010 season did not meet expectations in terms of discoveries, it nonetheless confirmed the potential of the Trenton – Black River groups. A porous zone was actually penetrated in the Black River (Pétrolia Corridor Saumon No. 1. well), which produced the equivalent of 5,000 barrels of salt water over an open thickness of 3 cm. This flow attests to the quality of this reservoir.

1.5.4.2 *Unconventional Targets*

Partner exchanges led to the decision to test the shale oil potential of the Macasty Formation. The core sample extracted from the shale at the Macasty Formation (Pétrolia Corridor Chaloupe No. 1 well) has created a new exploration possibility given the positive initial results (see press release published on February 9, 2011). The analyses performed by a laboratory in Weatherford, Houston and by Schlumberger Canada in fact confirm that the shales contain considerable quantities of oil and that the formation has the characteristics required for exploration possibilities.

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

Pétrolia and its partner Corridor Resources are already examining the options available to them, including a partnership, for best executing the upcoming phases in the exploration and evaluation of the resources.

SUMMARY: ANTICOSTI

Surface area	638,106 hectares
Exploration costs as at March 31, 2011	• $6,101,738
Partnership	• Corridor Resources Inc. • License acquired in 2007 • Pétrolia interest: 25% to 50% • Seeking a partner to continue evaluating the potential of the Macasty Formation
Achievements	• Interpretation of seismic lines and available drilling data • Soil geochemistry survey (gas absorbed through microbial analysis) conducted on the entire island in 2008 (1,700 samples) • Interpretation of Shell and Hydro-Québec seismic data • Integration of drilling data into modern composite logs • Evaluation of the Shell Jupiter No. 1 and Shell Roliff No. 1 wells • Study on the characteristics of organic matter in selected wells on the island • Drilling campaign in 2010 (3 wells drilled), including three contiguous core samples extracted in the Macasty Formation • Environmental characterization of drilling sites
Work in progress	• Evaluation of drilling works carried out in the summer of 2010 • Study of the analysis results of the core samples extracted from the Macasty Formation
Proposed work	• Continue with the Macasty evaluation

1.5.5 OTHER PROPERTIES

As it did in 2010, Pétrolia spent the quarter ended March 31, 2011 focused on the Haldimand and Anticosti projects, resulting in little activity on its other properties.

Organic matter analyses were conducted on field samples from all of its properties in order to enhance Pétrolia's knowledge of the maturity and source rock potential of rocks in the Gaspé region. Weatherford was mandated to carry out this work. The results are now known and will be incorporated into the other data.

Amounts were also allocated to a geochemical project carried out by the same firm and using the same approach as the Haldimand survey. This project, which was introduced during the quarter and is slated to continue into the next quarter, covers portions of the Gaspésia, Edgar and Marcel-Tremblay properties.

No other activities were carried out on these properties.

1.6 OPERATING RESULTS AND CASH POSITION

For the second quarter, the Company received no amount for the evaluation of oil reserves since the oil from the production test was stored in inventory. Interest revenue on short-term investments accounted for $45,386, compared with $6,646 for the same period in 2010. There was no stewardship revenue.

As at March 31, 2011, the Company had cash and cash equivalents of $6,112,653, a decrease of $1,639,462 since December 31, 2010. Exploration and administration expenses explain most of this change.

As at March 31, 2011, working capital was positive at $7,072,474, which will allow the Company to continue its exploration projects.

1.7 COMMITMENTS

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

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

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

The Company has signed leases for the rental of office space and one house from four different corporations. The balance of the commitments associated with these leases, excluding escalation clauses, is $1,360,469, of which $7,700 is payable to a company in which a director holds a minority share.
The following minimum payments will be due over the course the next few fiscal years:

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

1.8 Analysis of Operating and Administrative Expenses

Operating and administrative expenses for the quarter totalled $552,869, compared with $571,512 in 2010. The $18,643 decrease between the same quarter in 2011 and 2010 is mainly caused by the following variances:

- Stock-based compensation: an amount of $71,400 was recorded, compared with $183,600 in 2010;
- Salaries and fringe benefits: payroll for the quarter grew by $37,598 as the result of an increase in the Company's exploration activities. Administrative employees were hired;
- Interest on the debt: An interest amount of $22,126 was accounted for with regard to the debt incurred through the funding of tax credit on resources.

1.9 Summary of Quarterly Results

	2011	2010				2009		
	March	December	September	June	March	December	September	June
	$	$	$	$	$	$	$	$
Revenue	45,386	6,522	(46,658)	47,342	6,646	18,772	46,759	66,186
Net earnings (net loss)	(384,846)	3,477,401	(330,057)	(244,544)	(402,692)	(381,236)	386,447	(135,103)
Net earnings (net loss) per share								
Basic	(0.008)	0.0695	(0.0068)	(0.0053)	(0.0092)	(0.0092)	0.0095	(0.0033)
Diluted	(0.008)	0.0571	(0.0068)	(0.0053)	(0.0092)	(0.0094)	0.0073	(0.0033)

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

2009 – September	Unrealized gain of $200,000 on an investment and future income taxes of $542,000 recorded.
2009 – December	Unrealized loss of $458,500 on an investment and a gain on disposal of shares of $395,163 recorded.
2010 – March	Stock-based compensation of $183,600 recorded.
2010 – December	Stock-based compensation of $48,600 and a gain on disposal of interest in certain licenses of $3,856,703.
2011 – March	Stock-based compensation of $71,400.

1.10 RELATED-PARTY TRANSACTIONS

During the quarter, a company (Gestion LesTrois Inc.) in which one of Pétrolia's directors holds a minority interest billed the Company rent for space in the amount of $1,486 (2010 – $2,142).

Also during the quarter, another company (Géominex Inc.) in which one of Pétrolia's directors holds a minority interest. As at March 31, 2011, $44,475 is due from these two companies (2010 – $33,995).

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

	2011 **$**	**2010** **$**
Salaries and fringe benefits	3,771	34,110
Office supplies	556	900
Telecommunications	-	1,266

A sum of $384 is due to this company as at March 31, 2011 (2010 – $38,295).

Transactions were carried out with a company (Seisserv Inc.) whose majority shareholder is a director of Pétrolia. The exploration work billed to the Company for the quarter amounted to $984 (2010 – $6,780). No amount is due as at March 31, 2011 (2010 – $0).

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

1.11 ACCOUNTING POLICIES

During the quarter, the company adopted an inventory policy.

Accounting policy for inventory

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

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

1.12 NEW ACCOUNTING STANDARDS

No new accounting standards were adopted during the quarter.

1.13 FUTURE ACCOUNTING STANDARD

IFRS Convergence

In February 2008, the Accounting Standards Board (AcSB) confirmed that Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS). IFRS rely on a conceptual framework similar to that of Canadian GAAP, but there are significant differences in terms of recognition, evaluation, and disclosures.

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

Training

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

Affected Accounting Standards

The detailed analysis of accounting standards affected by the convergence to IFRS should be completed throughout fiscal 2010-2011. In general, much effort must be put into the presentation of financial statements, since IFRS require more disclosures.

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

Initial Adoption (IFRS 1)

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

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

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

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

Accounting method	**Main differences in accounting treatment**	**Potential impacts**
Provisions and contingent liabilities	IFRS require the recording of a provision if it is more likely than not that an outflow of resources will be necessary to settle the obligation, while Canadian GAAP use a higher threshold. IFRS also require that a provision be recorded in the case of onerous contracts, while according to GAAP, the recording of such a liability is only required in certain situations.	Opening balance sheet and after the transition: We have not finished our evaluation. It is possible that additional provisions will be recorded according to IFRS.
Income tax	The various accounting method modifications according to IFRS will also have an impact on the corresponding deferred tax asset or liability, unless a reduction of value is required.	Opening balance sheet: No significant impact is expected. No short-term deferred taxes. After the transition: The impact will

		depend on the net effect of all of the differences between the accounting methods.
	The tax consequences of a transaction recorded in other comprehensive income or directly in shareholders' equity during previous periods must be recorded directly in other comprehensive income or directly in shareholders' equity ("retrospective research"). According to Canadian GAAP, any subsequent variation of deferred taxes is charged against earnings.	Opening balance sheet: No significant impact is expected on overall shareholders' equity. After the transition: The impact on earnings will depend on the extent of the variations in deferred taxes that will be recorded in other comprehensive income or directly in shareholders' equity.

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

Steps in the Conversion Process:

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

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

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

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

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

Information Systems

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

Internal Controls

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

Impact on Commercial Activities

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

Business processes will be monitored during the 2010-2011 fiscal year in order to detect impacts not identified during our initial analysis.

1.14 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Risk Management Policy
Through its financial assets and liabilities, the Company is exposed to various risks. The following analysis provides an assessment of the risks as at March 31, 2011, the date of the balance sheet.

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

Maximum exposure to credit risk at March 31:

	2011 **$**	**2010** **$**
Cash	308,153	2,838,455
Money market fund	1,000	1,250,552
Guaranteed investment certificates	5,803,500	-
Receivables	3,699,460	3, 318,153
	9,812,113	7,407,159

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

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

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

Market Risk

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

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

Investments are at a fixed interest rate, and thereby expose the Company to the risk associated to variations in the fair value ensuing from interest rate fluctuations. For the quarter ended March 31, 2011, an increase or decrease of 1% in the interest rates in effect at that date (with all other variables remaining equal) would have triggered a net loss variation of $1,590.

The Company has a variable rate bank loan, and is thus exposed to interest risk due to fluctuations in the prime rate. For the fiscal year ended December 31, 2010, an increase or decrease of 1% in the interest rates in effect at that date (with all other variables remaining equal) would have triggered a net loss variation of $600.

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

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

The Company’s financial assets and liabilities are categorized and valued as follows:

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

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

Fair Value

The fair value of investments is determined as follows:

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

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

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

Hierarchy of Fair Value Valuations

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

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

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

Level 2 – valuation techniques based on data other than the listed prices referred to in level 1 observable for assets or liabilities directly (prices) or indirectly (price derivatives): cash equivalents and investments are found on this level.

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

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

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

The fair value of financial instruments for the period ending on March 31 is summarized as follows:

	2011		**2010**	
	Book value $	**Fair value $**	**Book value $**	**Fair value $**
Financial assets held for trading:				
Cash and cash equivalents	6,112,653	6,112,653	4,089,007	4,089,007
Investments	754,331	754,331	380,000	380,000
Loans and debts:				
Receivables	3,699,460	3,699,460	3,318,152	3,318,152
Other financial liabilities:				
Trade and other payables	1,376,247	1,376,247	1,417,669	1,417,669
Loan	2,243,310	2,243,310	-	-

RISK AND UNCERTAINTY

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

1.15 ADDITIONAL INFORMATION

a) Supplemental documents

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

b) Rule 51-102 Section 5.2

The deferred exploration expenses for the quarter ended March 31, 2011, are detailed as follows:

	Geology $	Analysis $	Geophysical surveys $	Drilling $	Completion $	General expenses $	Evaluation of oil reserves $	Stock-based compensation $	Total $
Anticosti	63,355	473	7,590	525,497	105	1,260	-	-	598,280
Gastonguay	-	-	-	-	-	-	-	-	-
Gaspésia-	17,740	-	210	-	-	575	-	-	18,315
Edgar-Marcel-Tremblay	75	-	-	-	-	275	-	-	350
Gaspé	7,345	-	5,562	34,225	958	6,485	-	-	54,575
Gaspé Bourque project	2,595	-	73	261	-	-	-	-	2,929
Gaspé Haldimand project	16,592	555	116,174	6,790	1,915	9,932	72,902	-	224,860
Gaspé Tar Point project	-	-	3,543	56,160	958	-	11,133	-	71,794
Dalhousie (New Brunswick)	225	-	2,365	-	-	3,920	-	-	6,510
	107,927	1,028	135,307	622,933	3,936	22,447	84, 035	-	977,613

b) Rule 51-102 Section 5.2

The deferred exploration expenses for the quarter ended March 31, 2010, are detailed as follows:

	Geology $	Geophysical surveys $	Drilling $	General expenses $	Total $
Anticosti	8,988	2,052	-	-	11,040
Gastonguay	4,560	-	-	-	4,560
Gaspésia-Edgar-Marcel-Tremblay	10,800	36	-	-	10,836
Gaspé	30,860	12,075	622	-	43,557
Gaspé Bourque project	10,028	427	114	-	10,569
Gaspé Haldimand project	81,821	22,582	990,999	-	1,095,402
Gaspé Tar Point project	14,826	1,581	1,258,210	-	1,274,617
Dalhousie (New Brunswick)	-	235	-	-	235
	161,883	38,988	2,249,945	-	2,450,816

c) Rule 51-102 Section 5.3

Information on shares issued, warrants, and stock options as at May 12, 2011:

Common shares: 50,504,787 common shares have been issued and are outstanding.

Warrants: Warrants can be exercised as follows:

- 2,146,911 shares at a price of $1.30 per share until December 4, 2011;
- 1,750,000 shares at a minimum price of $1.00 per share until October 10, 2012;
- 3,000,000 shares at the minimum price of $1.00 per share until January 10, 2013.

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

- 37,500 options exercisable at a price of $0.74 per share until May 21, 2012;
- 587,500 options exercisable at a price of $0.40 per share until June 21, 2012;
- 400,000 options exercisable at a price of $0.60 per share until February 12, 2013;
- 150,000 options exercisable at a price of $0.60 per share until March 3, 2013;
- 427,500 options exercisable at a price of $1.25 per share until July 7, 2013;
- 180,000 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;
- 845,000 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.

1.16 MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

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

Rimouski, May 12, 2011

On behalf of the Board

(signed) *André Proulx*

André Proulx
President