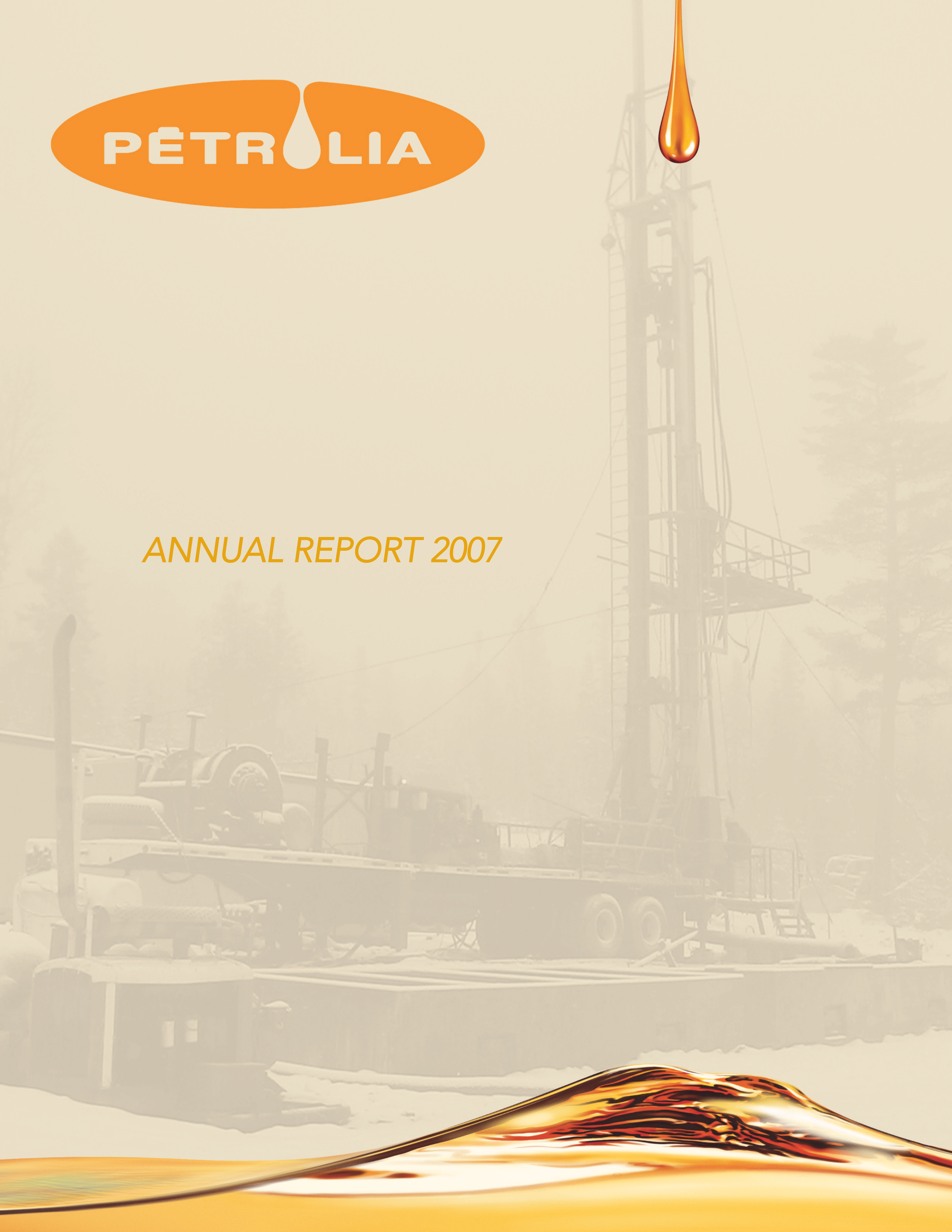

PÉTROLIA

ANNUAL REPORT 2007

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

This management report complies with Rule 51-102A of the Canadian Securities Administrators regarding continuous disclosure for reporting issuers. It is an addition and supplement to the audited financial statements for the fiscal years ended on September 30, 2007 and 2006, and should be read in conjunction with these statements, which were prepared in accordance with Canadian generally accepted accounting principles (GAAP). It presents the view of management on current Company activities and the annual financial results, as well as a preview of the activities during the coming fiscal year.

Date

The present management report for the fiscal year ended September 30, 2007, is dated January 11, 2008.

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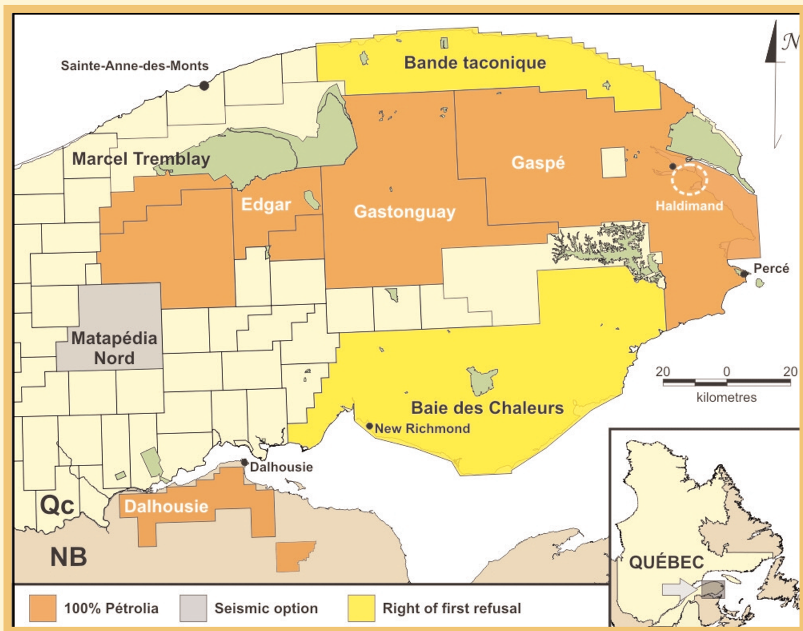
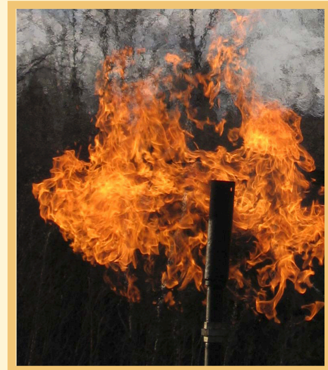
The Company holds the exploration rights over more than 2.2 million acres (9,229 km²); it also holds the first-refusal rights on more than 1.4 million acres (5,885 km²) held by Junex.



Pétrolia is a junior company established in 2002 for the purpose of exploring and developing oil and gas properties. The majority of its leases are concentrated in the Gaspé region. The Company holds the exploration rights over more than 2.2 million acres (9,229 km²); it also holds the first-refusal rights on more than 1.4 million acres (5,885 km2) held by Junex.

In its third borehole, in 2006, the Company made the first discovery of commercially-viable petroleum in Quebec: the Pétrolia-Haldimand No. 1 well. Over 12 days this well produced light crude oil at an average rate of 34 barrels per day. Pétrolia thereby took the first step in the development process towards becoming a producer.

HIGHLIGHTS OF 2007



1. Financing of $4,750,000 at $1 per share.

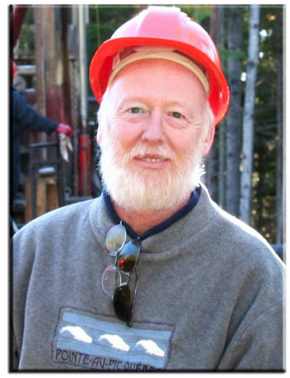
2. Continued negotiation of an outline operating agreement aimed at the development of its Gaspé and Gastonguay properties.

3. Expansion of its technical team by adding the services of a Chief Geologist, a Drilling Engineer, and a Project Geologist.

4. Acquisition of the Marcel Tremblay property, which adjoins the Gaspésia and Edgar properties, in order to add all the high-potential ground in the north-central Gaspé region to its other leases.

5. Exploration work mainly involved the acquisition of new seismic lines on the Gaspésia and Edgar properties, and the reprocessing of lines in the public domain. Ground surveys and petrographic and geochemical studies were car ried out for certain properties, also reconnaissance programs to identify the locations of future seismic campaigns. Internal studies included the compilation and evaluation of available geoscientific data.

CHAIRMAN'S MESSAGE TO SHAREHOLDERS



2007 will prove to have been a decisive year in enabling the Company to reach its goal of becoming the leading petroleum producer in Quebec.

No success is won without effort or without a structure: the year 2007 has certainly been a year of consolidation. The early discovery of Haldimand was a surprise not only to its investors, but also to the Company itself. It then became necessary to proceed in a series of stages, and some of these required more time than others. However, having successfully completed them all, Pétrolia is now acknowledged as a credible corporate member of the Quebec petroleum industry, and the leader in oil and gas exploration in Quebec. The second stage in our consolidation strategy was a particularly important one. The establishment of a top-level technical team enabled, first of all, a full understanding of the potential of our properties, but it also provided the capacity to develop new exploration concepts that can lead to new future discoveries (Stage 5).

The Haldimand discovery was so important that it led to a re-examination of the entire structure of the Company. We urgently needed to recruit experienced personnel to complete this project successfully. The negotiation of an outline agreement that would ensure the performance of the development work on this discovery thus became a top priority. It became evident that an oil field would result from this discovery, and that this would require major funding. For this purpose Pétrolia developed a financial strategy (Stage 4), relying on an issue of shares at $1 per share. This would raise a significant amount of money while obtaining a low dilution. In addition, the Company acquired financial partners with whom it could construct a long-term association.

Another aspect was that all these approaches in search of investors enabled Pétrolia to establish a significant network of contacts that could prove a strategic asset in the development of the Company (Stage 3).

The Company is pleased to take this opportunity to pay tribute to the first Chairman of its Board of Directors, Mr. Marcel Tremblay, by naming its latest property after him. Mr. Tremblay was Pétrolia's mentor, and helped it to become a public corporation.

GOALS FOR 2008

For 2008, Pétrolia's main objective is to put the Haldimand oilfield into production. The work will begin as soon as an agreement is signed with our partners.

The Company will also be emphasizing exploration programs for the ongoing evaluation of its immense holdings, in particular by conducting seismic surveys on the Gaspé, Gaspésia, Matapédia-Nord, Gastonguay, and Dalhousie properties. With more specific exploration models, the opportunities for signing partnership agreements will be more numerous and greater in scope.

FINANCIAL SITUATION

During the fiscal year, the Company carried out exploration work valued at $1,627,411, including share-based compensation amounting to $155,730.

The Company incurred a loss for the 2007 fiscal year of $288,145 ($0.0099 per share) compared to $477,925 for the 2006 year ($0.0190 per share).

2007: STRATEGIC CONSOLIDATION

The discovery at Haldimand, in only the third borehole, quickly threw Pétrolia into the most complicated stages of production development. The Company was thus forced, during 2007, to pursue a strategy of consolidation in order to assemble all the elements necessary for reaching its goal of becoming the leading petroleum producer in Quebec.

Voici les cinq étapes de cette stratégie de consolidation.

Stage 1
Acquire large areas for better control

One of Pétrolia's major assets is the great extent of its mineral properties in areas with acknowledged petroleum potential – a potential confirmed by the important Haldimand discovery. The Company also has stakes in more than 2.2 million additional acres (9,229 km²). Pétrolia will thus be in a favourable position to negotiate agreements if new discoveries attract interest from major petroleum companies. With this in mind, during the fiscal year 2007 Pétrolia acquired two new exploration permits, known as the Marcel-Tremblay property. This acquisition was designed to extend the Gaspésia property and to ensure control of the promising ground to the north of the property. Moreover, the Company relinquished five permits in the southern portion of the Gaspésia property, following a report that showed that the formations in this area were too mature to have retained oil and gas.

Stage 2
Improving our expertise

Pétrolia's management believes that the key to attaining its objectives is to surround itself with a team of qualified professionals capable of executing and supervising exploration and production operations. On occasion, it has drawn on the services of recognized petroleum-industry experts to carry out specialized assignments.

In 2007, Pétrolia added to the skills of its technical team by taking on three seasoned professionals: a Chief Geologist, a Drilling Engineer, and a Project Geologist. In addition, a geophysicist acts a consultant for the Company while also serving on the Board of Directors. In this way the Company has increased its capacity for developing its discoveries, and for conducting its exploration programs. Pétrolia's workforce now totals six permanent and temporary employees.

Stage 3
Protecting its assets to improve progress

Throughout 2007, Pétrolia pursued its negotiations with Junex, to reach an outline joint operating agreement (JOA) for development work on the Gaspé and Gastonguay properties, which are subject to a back-in by the company Junex. This outline agreement will provide the basis for a specific agreement on the development of the Haldimand oilfield. Its objective is the preparation of an agreement establishing the parameters of a harmonious and effective development of all petroleum discoveries made on its properties. This agreement resembles the agreements between oil companies in western Canada, and is drafted with the help of experts in this area.

While awaiting signature of the agreement, Pétrolia has placed the exploration work on all of its affected permits (Gaspé and Gastonguay) on standby, since the terms of the development work to be undertaken in the event of a discovery have not yet been determined.

In view of the great area of its mineral holdings, Pétrolia seeks to reduce its exploration risk by taking on partners, so as to achieve the objectives of its exploration program more quickly. For this reason, the Company took part in the NAPE 2007 (Houston) and Québec Exploration 2007 conferences, in order to promote its properties and its exploration projects. A number of representatives of international companies attended, to meet with Quebec petroleum exploration companies and to learn about their projects for 2008. Since the high-potential areas are all under permit, a number of farm-outs may be expected in the Quebec oil and gas industry during 2008.

Stage 4
Swelling the coffers

Pétrolia has completed two segments of its $9 million private investment announced on October 10, 2006, in the amount of $4,750,000. The measures will continue in 2008.

By subscribing to the Company's capital stock at $1.00 per share, these investors are acknowledging the significance of the discovery in the Pétrolia-Haldimand No. 1 well – in a relatively unexplored region – as well as the petroleum potential of the Company's other properties. By seeking financing at $1.00 per share, Pétrolia has made certain of financial backing while at the same time working with partners who will be essential for its expansion. This strategy also offers the advantage of providing major financing while minimizing the dilution of its issued shares.

The proceeds of this investment will be used to develop the Haldimand oilfield, to explore the Company's properties, and for working capital.

Stage 5
Assessing the potential so as to improve targeting

Pétrolia greatest resource lies in its leases. It therefore needs to assess the potential of all of its properties as accurately and quickly as possible in order to decide on its future course of action. Studies of geological and geophysical data provide a low-cost route to the construction of exploration models, which can then be tested by new drill campaigns.

With this in mind, Pétrolia's technical team devoted a lot of effort during 2007 to evaluating the geological and geophysical data for its properties in the Gaspé region and New Brunswick, in order to define new exploration models. Several possible targets were identified in this way, and now await the completion of the next step, i.e., the execution of more detailed seismic surveys.

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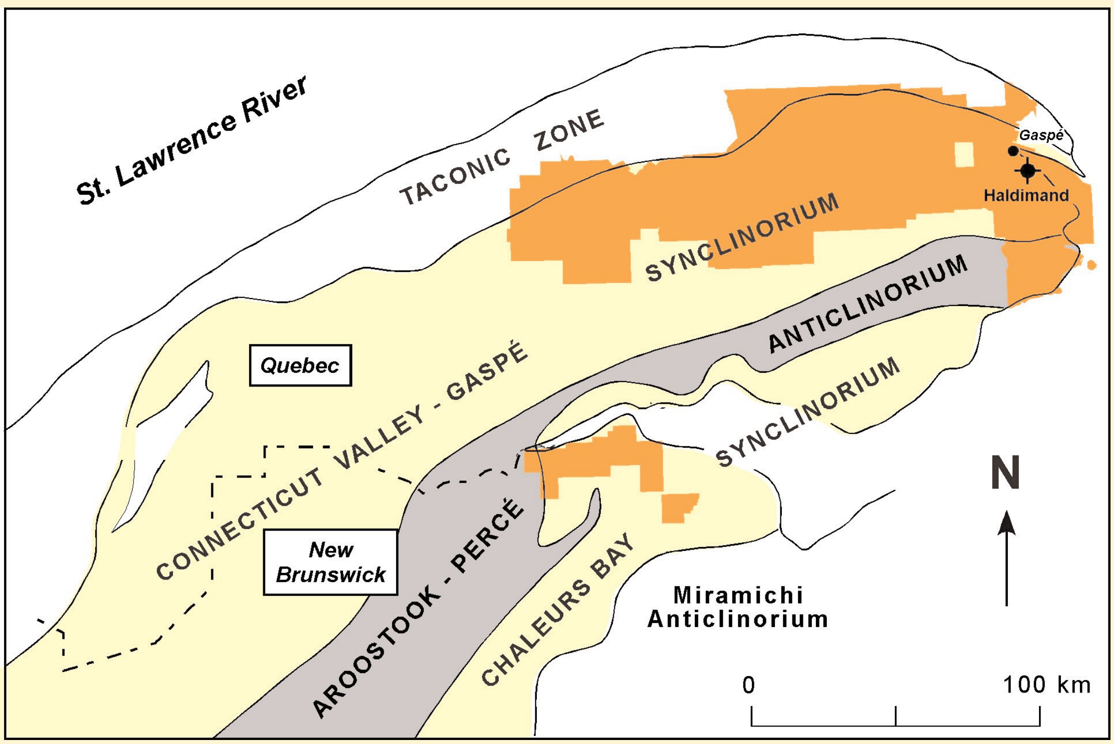
RESULTS OF EXPLORATION WORK DURING 2007

Pétrolia's exploration permits are located in the Appalachians of eastern Quebec and northern New Brunswick. Although these properties extend onto Taconic (Cambro-Ordovician) terranes in the north, they mainly cover the northern and southern margins of the Gaspé Belt, composed of Ordovician to Devonian sandstones, mudstones, and limestones. A number of major structures are observed, including several that represent potential traps: these are being actively investigated by Pétrolia. Some of these structures have been drilled in the past, and showed traces of gas and oil.

Pétrolia holds the exploration rights over more than 2 millions acres, or 11% of the permits issued in Quebec as of September 30, 2007. In particular, it owns most of the exploration permits issued for the northern portion of the Belt, known as the Connecticut Valley-Gaspé Synclinorium which, in the vicinity of Gaspé, has been the target of the most significant petroleum exploration in the Gaspé region (eight oil and gas boreholes since 1999, including three drilled by Pétrolia in 2005 and 2006). The presence of oil seeps in the Devonian sandstones explains the attention paid to this region by explorers from the 19th century onwards. In recent decades oil companies such as Shell Canada, Petrofina, Petro-Canada, Gulf Oil, Imperial Oil, Pennzoil, and Soquip have successively investigated this region. However, Pétrolia is the first company to have made a significant petroleum discovery.



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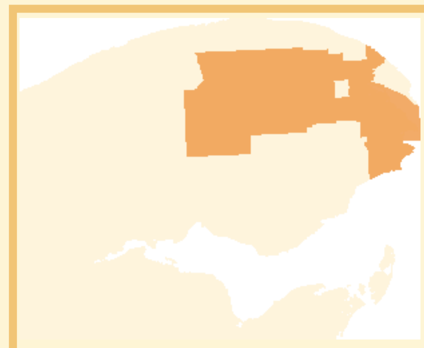
GASPÉ AND GASTONGUAY PROPERTIES

These two properties cover almost all of the Connecticut Valley-Gaspé Synclinorium in the eastern Gaspé region, and they overlap the margins of the Taconic terranes on the north and the Aroostook-Percé Anticlinorium on the south. The Pétrolia-Haldimand No. 1 well has confirmed the petroleum potential of the Gaspé region. The Pétrolia Le Ber No. 1 and Pétrolia Wakeham No. 1 wells, which are now being abandoned, may not have led to significant discoveries, but they have nevertheless improved our understanding of the special features of this sedimentary basin, and in the future they may guide our exploration towards more specific targets.

In the eastern part of the Gaspé property, the targets sought are located in the Gaspé Sandstones, where Pétrolia hopes to find deposits similar to the one at Haldimand. In the western part of the Gaspé property (Bourque Project), and at Gastonguay, the deepest reef limestones of the West Point Formation constitute the main exploration target.

For the reasons mentioned above, in 2007 Pétrolia limited its exploration work on these properties to the initiation of a project to reprocess the seismic lines from the Gaspé region. This will continue in 2008, with an internal re-assessment of the petrographic and petrophysical data from the region's oil wells, and a short field investigation to check the accuracy of the geologic maps. The regional seismic survey, carried out on the Gaspésia property in December 2006, will also assist in understanding the geology of the Gastonguay property. New regional seismic surveys will be required to evaluate the potential of this property.



Bourque Project

The Bourque project is a new initiative that started in 2007, in the northeast portion of the Gaspé property. It was named in honour of P.-A. Bourque, a professor in the Department of Geology and Geologic Engineering at Laval University, who devoted a large part of his career to arousing the interest of oil companies in the Devonian reefs of the Gaspé region. The reef limestones of the West Point Formation provide the main target in this area.

Pétrolia has acquired the seismic lines that have fallen into the public domain in this region, and plans to reprocess them in 2008. The Company also intends to conduct a new seismic program and to clarify the interpreted sub-surface distribution of the reefs. Lastly, following ground surveys carried out in 2007, Pétrolia has contracted a study in 2008 of the maturation of the organic matter, which will provide a more accurate assessment of the region's petroleum potential.

Pétrolia is counting on the great potential of this project to attract partners who will be able to carry out the exploration work.

Haldimand Project

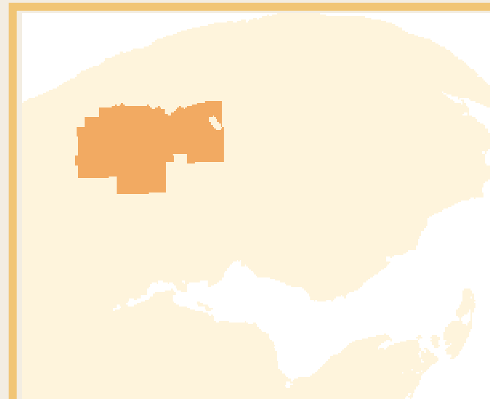
Pétrolia holds a 45% interest in the Pétrolia-Haldimand No. 1 well; Gastem and Junex hold interests of 10% and 45% respectively.

In 2007, Pétrolia conducted internal petrophysical and petrographic studies to obtain an understanding of the Haldimand oilfield. These studies, combined with those provided by specialist firms, will be used to site at least one confirmation borehole and to undertake the development of the oilfield, if possible in 2008.

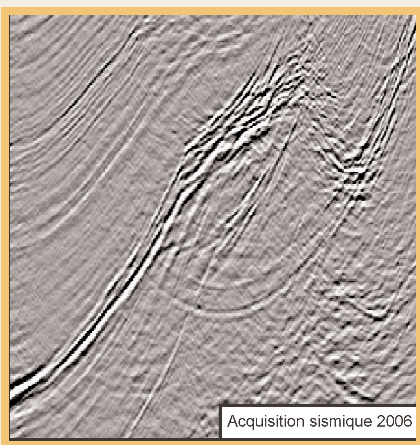
The significant discovery of petroleum in the Pétrolia-Haldimand No. 1 well also encourages us to anticipate similar discoveries in adjacent areas where Pétrolia holds the leases. In 2008, therefore, once Pétrolia has completed partnership agreements with all the parties, it will undertake exploration work aimed at making new discoveries. In particular, it plans to carry out new 2-D or 3-D seismic surveys, to define the geometry of the field.

GASPÉSIA, EDGAR, AND MARCEL-TREMBLAY PROPERTIES

These contiguous properties cover a broad area of the Connecticut Valley-Gaspé Synclinorium in the west-central Gaspé region. On surface this area exhibits folded and faulted sandstone, mudstone, and limestone formations belonging to the Ordovician, Silurian, and Devonian. The regional seismic coverage is relatively poor, but it is constrained by the Great Plains Noël and others. La Vérendrye No. 1 borehole is located to the west of the Pétrolia permits.



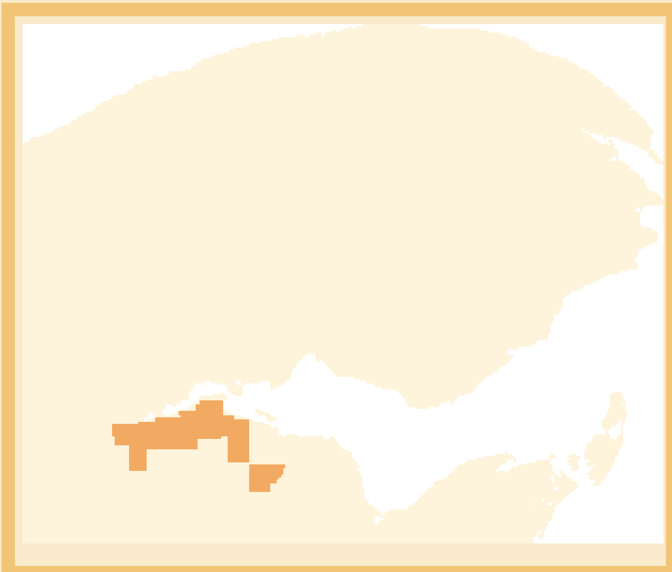
In 2001, the Ministry of Natural Resources carried out a seismic survey that crosses the whole property. Pétrolia meanwhile contracted a study of the thermal maturation of the local rocks, and a compilation study of all the available seismic and geologic data. This study provided Pétrolia with clear recommendations for the property's development. The first suggested step was the execution of a regional seismic survey. Pétrolia then carried out a 126 line-km seismic survey in December 2006. The quality of this survey is excellent. Moreover, the results of recent geochemical studies carried out by Pétrolia on these properties show that they contain source rocks that are favourable for the generation of oil and gas. These studies also indicated the presence of reservoir rocks, with thicknesses of up to several hundreds of meters, capable of containing major quantities of hydrocarbons. This is the key element for hydrocarbon exploration in the Gaspé region. Interpretation of the latest seismic profiles has identified new and highly promising avenues for exploration. The Siluro-Devonian reef limestones, which are not as deeply-buried, could also represent interesting targets.


Acquisition sismique 2006

The next step in the exploration program on these properties will be the acquisition of detailed 2-D seismic profiles to better define the exploration targets, the reprocessing of all the public seismic lines for the area, an inversion of the potential-field data, and a 3-D GOCAD model incorporating all the available data. For this purpose a seismic program has been scheduled for the early summer of 2008. Note that Pétrolia owns 100% of the production rights on all 547,079 acres of these properties, in the centre of the Gaspé region.

Matapédia Project

Pétrolia holds a seismic option on this property located on the southwest margin of the Gaspésia property. In 2005, Pétrolia acquired a seismic line that allows the seismic data on the Gaspésia property to be calibrated against the Great Plains Noël and others. La Vérendrye No. 1 well. Pétrolia is currently evaluating the results of the seismic survey in order to decide whether to take up its option to drill, which will expire in 2008.



DALHOUSIE PROPERTIES

The three Dalhousie properties, in northern New Brunswick, are located in the Baie des Chaleurs Synclinorium, astride a structure called the Popelogan anticline. The core of the anticline includes highly-fractured Ordovician volcanic rocks that represent a potential reservoir.

The region is characterized by a very low level of regional exploration. However, the results of a study by the Geological Survey of Canada on the thermal maturation and the hydrocarbon potential of the rocks of northern New Brunswick suggest the presence of areas favourable for the preservation of liquid and/or gaseous hydrocarbons. The permits were acquired on the basis of this study, which concluded that this area is promising for the discovery of hydrocarbons.

In 2007 Pétrolia conducted an internal evaluation of these properties and is now able to present an exploration model. During the coming year, more detailed petrographic and thermal-maturation investigations are planned, as well as a gravity survey, leading to a 40-50 line-km seismic survey in the following year.

MANAGEMENT ANALYSIS OF THE FINANCIAL POSITION

EFFECTIVENESS OF DISCLOSURE PROCEDURE 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 at September 30, 2007, 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 design and application of these disclosure controls and procedures as defined in Canada in Regulation 52-102 (certification of disclosure in annual and interim documents of issuers) and ensure that the information that must be disclosed in the documents that we file or present is recorded, processed, summarized, and presented within the timeframes provided for by the relevant rules and forms.

SELECTED ANNUAL INFORMATION

	2007 $	2006 $	2005 $
Revenue	52,924	56,353	136,786
Net loss	(288,145)	(477,925)	(152,152)
Basic and diluted net loss per share	(0.0099)	(0.0190)	(0.0134)
Total assets	12,736,957	9,426,687	5,614,551
Long-term financial liabilities	20,150	31,845	-
	-		

Revenue is made up mainly of interest revenue, except in 2005 which included a gain from the disposal of well rights in the amount of $99,905. The decreased loss in 2007 in relation to 2006 is explained by the application of a new accounting standard released by the Canadian Institute of Chartered Accounts. This implementation provided an unrealized gain of $220,000 on financial assets designated as being held for trading. The increase in total assets is explained mainly by the investor deposit of $3,000,000. After the end of the fiscal year, the Company received consent from the regulatory authorities to convert this deposit into share capital.

OPERATING RESULTS AND CASH POSITION

For the fiscal year, the Company's revenues were limited to interest revenue on short-term investments of $52,924, compared with interest revenue of $55,111 for fiscal year 2006. Financing activities generated less cash flow than in 2006 by $1,002,837. The Company concentrated its efforts on major investments that were realized after the end of the fiscal year.

The Company made no investments during the fiscal year.

As at September 30, 2007, the Company had cash and cash equivalents of $3,048,473, including an investor deposit of $3,000,000.

As at September 30, 2007, working capital was $3,100,249.

The Company received investments in the amount of $4,750,000 by issuing 1,750,000 shares at $1.00 each on October 26, 2007, and $3,000,000 on January 10, 2008 under the same conditions.

ANALYSIS OF GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were comparable to 2006. The reduction in government fees is explained by the absence of financing with flow-through shares.

SUMMARY OF QUARTERLY RESULTS

This information is prepared according to Canadian generally accepted accounting principles and the particular accounting principles found in the notes to the annual financial statements.

	2007			2006				2005
	Sept. $	June $	March $	Dec. $	Sept. $	June $	March $	Dec. $
Revenue	17 008	1 366	12 212	22 338	12 233	11 596	22 595	9 929
Net earnings (Net losses)	(192 054)	(390 336)	315 253	(21 008)	(122 458)	(105 935)	(195 831)	(53 701)
Basic and diluted net earnings (net loss share	(0,0066)	(0,0134)	0,109	(0,0007)	(0,0049)	(0,0047)	(0,0098)	(0,0030)

Revenues are comprised of subsidies and earned interest. General and administrative expenses are relatively stable from one quarter to the next. The main changes in quarterly losses or profit are explained as follows:

2006 – March: Recorded stock-based compensation in the amount of $130,065;
2007 – March: Unrealized gain of $400,000 resulting from the recording of an investment at fair value;
2007 – June: Recorded stock-based compensation of $148,770 and an unrealized gain of $150,000 on an investment, resulting from its presentation at its fair value.

FINANCING

The Company operates no oil wells. Because the Company is in the exploration stage, its only revenue for fiscal year 2007 came from interest revenue. Its financing is therefore ensured by the issuance of shares of its capital. The "commitments" section discloses the contractual commitments in order to maintain its research permits and its commitments to its subscribers. During fiscal year 2007, the Company issued 659,603 shares for a total amount of $272,614. As at September 30, 2007, the Company had completed all of the exploration work that it had to forfeit in favour of flow-through share subscribers.

FOURTH QUARTER

The fourth quarter closed with a loss of $193,054 ($0.0066 per share).
Revenue for the quarter totalled $17,008, and general and administrative expenses were $132,013. Expenses were comparable to the other quarters.

In the absence of cash flow generated by oil and gas operations, the Company has been depending on capital markets to finance its exploration and development activities. Market conditions and other unforeseeable events may have an impact on the Company's ability to raise the funds required for its development.

RELATED-PARTY TRANSACTIONS

Transactions were made with a company in which one of Pétrolia's directors holds a minority interest.

	2007 $	2006 $
Geominex		
Vehicle purchase	1,500	-
Deferred operating expenses	340,246	104,011
Rent	3,193	9,720
Professional services	1,720	-
Junex		
Deferred operating expenses	-	2 346 220

The balance due to Géominex was $68,075 as at September 30, 2007 (2006 – $5,697). As at September 30, 2006, Junex was no longer a related party.

Transactions were made with Seisserv, a company in which one of Pétrolia's directors is a majority shareholder:

	2007 $	2006 $
Seisserv		
Deferred operating expenses	62 969	18 981

The balance due to this company as at September 30, 2007 was $5,769 (2006 – $0).

In order to minimize its operating costs, the Company shares its administrative expenses with Ressources Appalaches Inc., a company which shares the same chief executive officer:

	2007 $	2006 $
Ressources Appalaches		
Office supplies	4 680	7 980
Payroll	191 823	150 765
Telecommunications	4 082	2 603

The balance due to this company as at September 30, 2007 was $55,159 (2006 – $19,074).

The Company rented a facility from one of its directors for $16,675. No balance was due as at September 30, 2007.

These transactions took place in the normal course of business and are measured at the exchange value, which is the amount of the consideration established and accepted by the related parties.

COMMITMENTS

The Company's commitments are disclosed in Note 14 of the annual financial statements.

ADDITIONAL INFORMATION

A) SUPPLEMENTAL DOCUMENTS

Certain supplemental documents, 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 fiscal years ended September 30, 2007 and 2006, are presented in the statement of deferred operating expenses within the Company's financial statements.

C) RULE 51-102A-SECTION 5.4

Information on issued shares, warrants, and stock options as at January 11, 2008:

Common shares: 34,160,054 common shares were issued. Of this number, 1,409,658 shares have been escrowed, thus leaving 32,750,396 shares outstanding.

Warrants: warrants can be exercised as follows:
1,750,000 shares at the price of $1.00 per share until April 26, 2009
3,000,000 shares at the price of $1.00 per share until July 10, 2009.

Stock options outstanding
25,000 options exercisable at a price of $0.60 per share until October 10, 2008;
270,000 options exercisable at a price of $0.40 per share until March 15, 2010;
1,100,000 options exercisable at a price of $0.40 per share until February 3, 2011;
150,000 options exercisable at a price of $0.58 per share until May 10, 2011;
1,100,000 options exercisable at a price of $0.40 per share until June 21, 2012.

D)THE COMPANY'S FINANCIAL ASSETS AND LIABILITIES ARE CATEGORIZED AND APPRAISED AS FOLLOWS:

Assets/liabilities	Category	Subsequent appraisal
Cash and cash equivalents	Held for trading	Fair value
Short-term and long-term investments	Held for trading	Fair value
Debtors	Loans and receivables	Amortized cost
Payables and accrued expenses	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost

On October 1, 2006, the Company adopted these new recommendations. It now considers its short-term investments as financial assets held for trading and records them at fair value, which corresponds to their cost, given their short-term maturity. The Company also considers long-term investments as financial assets held for trading and records them at fair value.

ACCOUNTING POLICIES

NEW ACCOUNTING STANDARDS

The Company has implemented the new recommendations contained in the following sections of the Canadian Institute of Chartered Accountants (CICA) Handbook: 1530 "Comprehensive Income", 3251 "Equity", 3855 "Financial Instruments - Recognition and Measurement", 3861 "Financial Instruments - Disclosure and Presentation" and 3865 "Hedges". These standards have been adopted retrospectively without restatement of prior year data. Transitional adjustments resulting from the application of these standards are recognized in the opening deficit balance, which was reduced by $169,100.

Section 1530 "Comprehensive Income" introduces a new financial statement that shows the change in equity for a business resulting from transactions, events, and circumstances from non-owner sources.

Section 3251 "Equity" has replaced Section 3250 "Surplus". It describes standards for the presentation of equity and changes in equity for a reporting period as a result of the application of Section 1530 "Comprehensive Income".

Section 3855, "Financial Instruments - Recognition and Measurement" establishes the standard for recognizing and measuring financial instruments in the balance sheet and for reporting gains and losses in financial statements. Financial assets and liabilities are initially recognized at their fair value and are subsequently measured at fair value in the balance sheet, except loans and receivables, investments held to maturity and non-trading financial liabilities, which are carried at amortized cost.

Realized and unrealized gains and losses on financial assets and liabilities held for trading are recognized in the earnings for the period during which they arise. Unrealized gains and losses, including changes in foreign exchange rates on financial assets available for sale, are recognized in other comprehensive income until their realization, after which these amounts are recognized in earnings.

FUTURE ACCOUNTING CHANGES

The CICA released the following new sections, which will apply to interim and annual financial statements for fiscal years beginning on or after October 1, 2007, and fiscal years beginning on or after January 1, 2008, with regard to Section 1400:

Section 3862, "Financial Instruments – Disclosures". This section describes the required disclosure for evaluating the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of the risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863, "Financial Instruments – Presentation". This section establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, "Financial Instruments – Disclosure and Presentation".

Section 1535, "Capital Disclosures". This section establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies, and processes for managing capital as well as summary quantitative data on the items included in the management of capital. The section seeks to determine whether the entity has complied with capital requirements and, if not, the consequences of such non-compliance.

Section 1400, "General Standards of Financial Statement Presentation". This section was amended in order to include the criteria for determining and presenting the company's ability to continue as a going concern (going-concern assumption).

The company is currently assessing the impact of adopting these new standards on its next financial statements.

RISKS AND UNCERTAINTIES

The oil and gas properties held by the Company are in the exploration stage. The Company's long-term profitability is partially linked to the costs and the success of the exploration and subsequent development programs, which may also be influenced by various factors.

Among these, factors to be considered include environmental regulations, features of possible oil accumulations, i.e. the quality and quantity of the resources, as well as development costs for a production infrastructure, financing costs, the price of oil and gas, and the competitive nature of the industry.

Significant investments are necessary to complete the exploration programs.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Pétrolia's financial statements are the responsibility of management and have been approved by the Board of Directors under the recommendation of the auditing committee. The financial statements were prepared by management in accordance with Canadian generally accepted accounting principles and were approved by the Company's auditors. The financial statements include some 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 fairly in all material respects.

Rimouski, January 11, 2008

On behalf of the Board of Directors

André Proulx
President of the Company