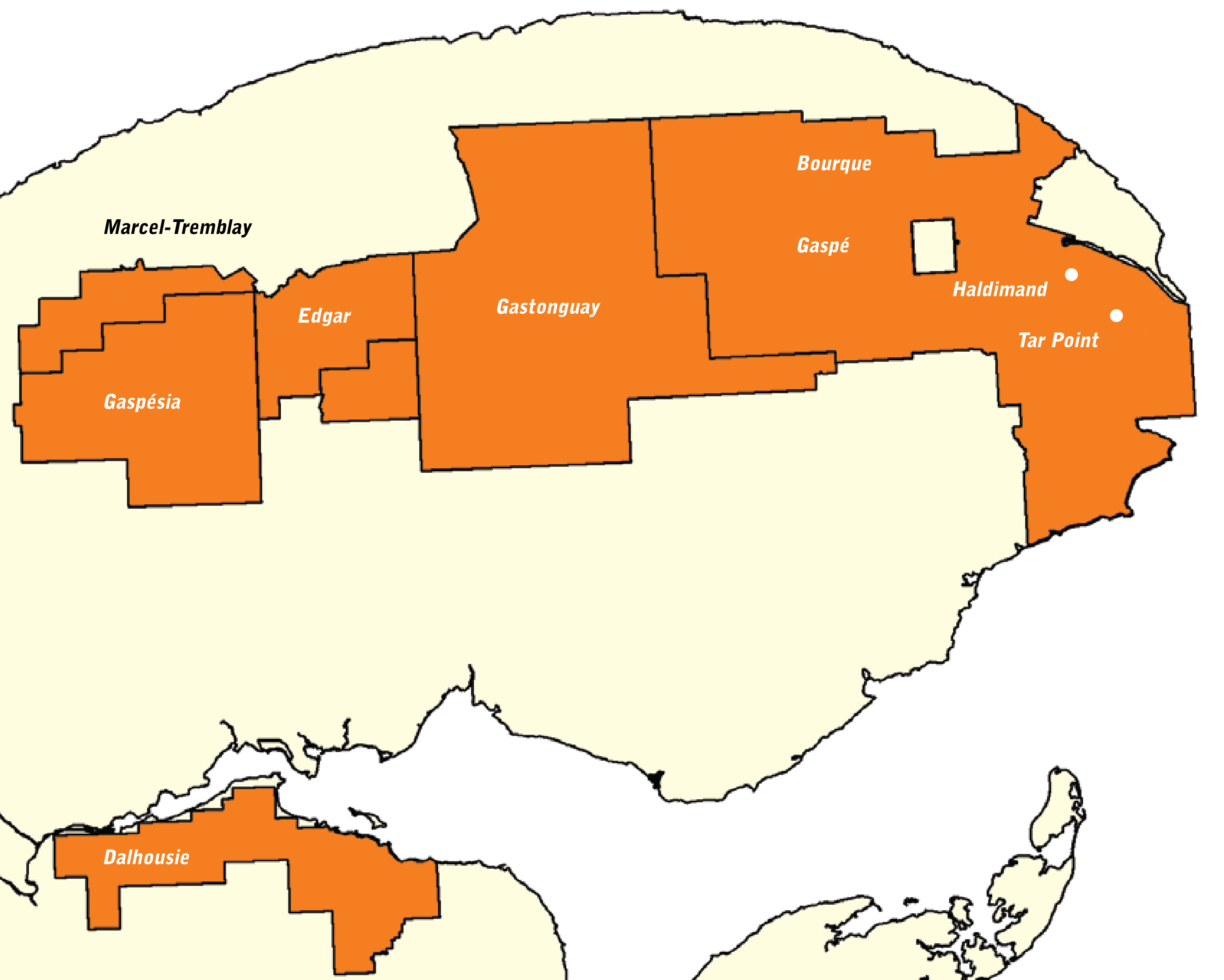
Management discussion and analysis
for the fiscal year ended September 30, 2009



This annual management report is an addition and supplement to the audited financial statements for the fiscal years ended September 30, 2009 and 2008, and should be read in conjunction with those statements, which were prepared in accordance with Canada's generally accepted accounting principles (GAAP). This management report presents the views of management on current Company activities and on the annual financial results, as well as a preview of activities during the coming fiscal year.

Date

This annual management report for the fiscal year ended September 30, 2009 is dated December 15, 2009.

Nature of activities

The Company is incorporated under Part 1A of the Quebec Companies Act. The Company has been listed on the TSX Venture Stock Exchange since February 16, 2005. The Company's primary activities are the exploration and development of oil and gas properties. In addition, to achieve its objectives, the Company may enter into various partnership agreements characteristic of the oil and gas industry.

Forward-looking statements

This report contains statements which should be considered to be forward-looking statements. The said statements relate to future events or to Pétrolia's future economic results and involve risks, uncertainties, and other factors, both known and unknown, that could significantly affect the results, performance, and achievements indicated or implied by Pétrolia's statements. Actual events and results could be very different. Accordingly, a decision to invest in Pétrolia's securities should in no circumstance be based on these forward-looking statements. Pétrolia has neither the intention nor the obligation to update these forward-looking statements.

Strategy and outlook

The Company's strategy is primarily aimed at the discovery of oil and gas reserves, and to achieve profitable and secure production from them at the earliest possible date. It achieves its objectives by obtaining rights over promising properties, with the support of experienced partners, and by drilling wells based on technical knowledge and the best engineering practices, while balancing risks against returns.

The Company currently operates no oil wells. Since it is still in the exploration stage, the Company's only income for the 2009 fiscal year is derived from interest and project management. Its financing therefore comes from the issuance of shares of its capital stock. The "Commitments" heading reports the contractual commitments required to keep its exploration licenses in good standing.

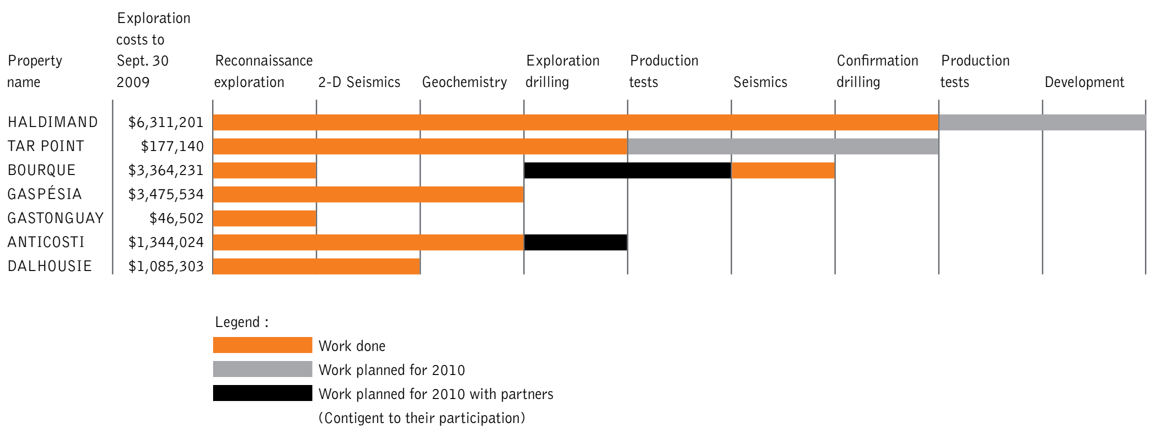
During the fiscal year the Company performed $5,848,244 of exploration work, compared with $5,722,280 for the previous fiscal year. For the fiscal year 2009 it incurred a loss of $854,911 ($0.021 per share) compared to a loss of $774,527 for fiscal year 2008 ($0.022 per share).

Summary of 2009 exploration work

The year 2009 saw Pétrolia achieve solid returns from its exploration endeavours during recent years with the drilling of a confirmation well on the Haldimand deposit, an exploration well on the Tar Point structure, and preparations for two other exploration wells on the Bourque project. This year's main highlights were:

- The drilling of Pétrolia-Haldimand No. 2 and Pétrolia-Tar Point No. 1;
- Renewal of the exploration leases covering all the properties.

Stage (progress of work)



Haldimand project

The Haldimand project is currently the Company's most important venture, firstly because the Pétrolia-Haldimand No. 1 well, drilled in 2006, led to the first potentially-profitable petroleum discovery in Quebec, and secondly because the Haldimand No. 2 well confirmed the discovery. These results demonstrate not only the Company's professional approach to its exploration activities, but they also open the way to new discoveries, as shown by recent results from the Pétrolia-Tar Point No. 1 confirmation well.

The Pétrolia-Haldimand No. 2 well reached a depth of 1,200 m. It showed that the Haldimand deposit extends for at least one kilometre to the northwest of the discovery well. The top of the favourable zone was encountered at a depth of 630 m, 225 m higher than in the first well. The drilling also showed that the section dominated by petroleum-saturated sandstones is much thicker at this location than in the first hole. The imaging data conclusively demonstrated the presence of abundant open fractures, concentrated in two intervals that are each about 50 m thick. Moreover, in view of the information gained from the Haldimand No. 2 well, and

considering the presence of open fractures, we conclude that the production potential at Pétrolia-Haldimand No. 1 has been underestimated. The tests to be conducted in early 2010 will determine whether these techniques will be sufficient to bring the Pétrolia-Haldimand No. 1 well into production.

In 2009, Pétrolia became the principal contractor for the work at Haldimand when its partners, Junex and Gastem, sold their interests in the project in order to pursue a shale gas strategy rather than engage in petroleum exploration in the Gaspé region. Pétrolia seized this unique opportunity which, in addition to raising its interest from 45% to 65%, enabled the Company to resume control of the operations. By taking over the management of the operations, Pétrolia ensured that the drilling activities would proceed in accordance with the Company's own criteria and that the quality of the data obtained would meet its expectations.

In August, Pétrolia mobilized a drilling rig and secured the services of specialized consultants and suppliers, so as to obtain the best possible data during the drilling of Pétrolia-Haldimand No. 2. Pétrolia applied innovative drilling techniques that had not previously been employed in the Gaspé region. These techniques enabled an optimization of the drilling rate and significantly reduced the time required for drilling, which led to substantial savings. Another of the Company's innovations improved the assessment of the well by supplementing conventional well-logging techniques with imaging and magnetic-resonance logs, which provide significant information on reservoir characteristics.

The data obtained during the drilling of Pétrolia-Haldimand No. 2 suggest that it is an unconventional deposit, consisting of a reservoir with low matrix porosity, cut by a network of open fractures. The use of directional drilling and new methods of hydraulic reservoir stimulation are now making feasible profitable production from this type of deposit. The best example is the Bakken oilfield in southern Saskatchewan and the north-central United States, where production is very large in spite of reservoir characteristics that initially appeared unattractive.

In early January 2010 a service drill will be mobilized with the objective of putting the two wells into production. Tests will be performed on the most promising sections and hydraulic fracturing operations will be carried out to increase the production capacity from both wells. Studies are under way to identify the most suitable method of fracturing. Production from the two wells on the Haldimand deposit should begin during the spring of 2010.

The work on these two wells will provide a better understanding of the characteristics of the Haldimand oilfield and lead to the preparation of a comprehensive development plan, to include confirmation wells, production wells, and the required surface facilities. This is a crucial stage in Pétrolia's strategic plan, which aims to develop the Haldimand field as quickly as possible and to achieve production at an early date.

Tar Point project

Following the discovery at Pétrolia-Haldimand No.1, the Company launched an exploration program on the Gaspé property, aimed at finding additional deposits of Haldimand type. Using its acquired knowledge, in particular from seismic and geochemical surveys, Pétrolia was able to identify the Haldimand Corridor, which displays the same geologic features as the initial discovery, and over which the Company holds a 100% interest. In 2008, geochemical and 2-D seismic surveys defined a drilling target at Anse-à-Brillant (a site known as Tar Point, because of its surface showings of petroleum). Moreover, a well located in this area in 1949 had found signs of gas and oil at several horizons. The Tar Point project is part of Pétrolia's strategy of concentrating its resources on the projects with the highest probability of success, and thereby making the Company profitable in the near term.

The Pétrolia-Tar Point No.1 well was completed on December 7, 2009. It reached a final depth of 2,434 m. After drilling through sandstones displaying characteristics similar to those in the Haldimand reservoir sandstones, followed by a thick limestone unit with open, petroleum-saturated fractures, the well reached in other sandstones in which indications of oil and gas were observed. A drill stem test in the fractured limestones produced a small quantity of light crude and gas on surface, over a flow period of slightly more than one hour. Preliminary analysis indicates that this zone represents a potentially significant petroleum discovery. Examination of the data suggests a production potential of about 20 barrels of light crude per day, together with some gas. In the near term this zone will be the subject of a production test aimed at determining the scope of the discovery, and if it proves to be significant, the possibility of stimulating the reservoir to improve production will be investigated.

The results obtained from the Pétrolia-Tar Point No. 1 well confirm the high potential for hydrocarbon developments in the Haldimand Corridor. Pétrolia can now extend its exploration work to cover the whole corridor, with excellent chances for success.

Bourque project

While the Haldimand Corridor offers Pétrolia an opportunity to produce petroleum in the near future, the Bourque project opens the possibility of discovering a very large deposit. The Bourque project is located in the northwest portion of the Gaspé property, 70 km west of the town of Gaspé, on leases that are 100% owned by Pétrolia. The project is the subject of a $ 20 M farmout agreement with Pilatus Energy, which allows Pilatus to earn a 70% interest in the project (press release of August 5, 2008). Pilatus has already carried out the first part of the agreement, a 3-D seismic survey, but before August 5, 2011 it must undertake exploration work of about $4.5 M in order to acquire its first 24% share of interest. The project has reached the drilling stage but Pétrolia must obtain approval from Pilatus Energy before mobilizing a drilling rig and advancing further into this phase of the operation.

Interpretation of the 65 km² 3-D seismic survey acquired in 2008 revealed the presence of a major reef complex in the Siluro-Devonian rocks of this portion of the Gaspé region. Pétrolia and Pilatus Energy have agreed on the location of two drilling sites selected to evaluate separate objectives within the reef complex. The total depth of the intended targets is about 3,000 m. This type of trap can hold considerable quantities of hydrocarbons. It is reminiscent of the Leduc-type reefs in Alberta in which giant oilfields have been discovered—a turning point for oil and gas exploration in Alberta.

The Bourque project illustrates another aspect of Pétrolia's strategy, which consists of forming associations with industry partners with the financial resources and technical abilities needed to invest in this type of higher-cost, higher-risk project.

The Bourque project is very important to Pétrolia and its shareholders in view of the size of the discoveries that could be made and of the interest that would be aroused regarding Pétrolia's other properties, where similar geologic conditions prevail.

Dalhousie project

Results from the seismic programs carried out on the Dalhousie property in 2008 and 2009 were sufficiently encouraging that Pétrolia is now planning to drill there. The surveys have shown that the area includes several large-scale anticlinal structures that could form potential traps. The seismic also suggests the presence of a gas/liquid interface in one of these structures, at a depth of 1,400 m.

Even if northern New Brunswick proves to have more gas than oil potential, the region will still be of interest because, owing to its great size, the target structure could, in the event of a discovery, provide a substantial volume of gas. This gas could supply local companies, and possibly a wider market if the necessary infrastructures were established. However, for a number of political and economic factors which render the project less attractive, Pétrolia has temporarily placed the project on hold, because even a significant discovery would not ensure a profitable project under current conditions. Indeed, the lack of gas pipelines in the region, the weak natural-gas price, and the fact that no local industry is currently ready use natural gas power make the project less attractive than those in eastern Gaspé. In addition, uncertainties concerning the future of NB Power's Belledune and Dalhousie thermal power plants, together with its negotiations with Hydro-Québec, only increase the uncertainty regarding the strategy to adopt for the exploration of this region. Before resuming its exploration work Pétrolia must make sure that the economic conditions are more favorable. Meanwhile, the Company continues to seek partners for the pursuit of exploration activities, including drilling.

Other properties

Since Pétrolia's resources have been almost exclusively directed towards work to confirm the discovery at Pétrolia-Haldimand No. 1 and the drilling at Tar Point, the Company has considerably reduced its activities on other properties. The following is a brief summary of work during the last year.

On Anticosti Island, unfavourable economic conditions convinced the partners to postpone the drilling program scheduled for 2009 until a later date. However, interpretation of seismic surveys and the 2008 geochemical survey continued in 2009, and this work confirmed the Island's very high potential for hydrocarbons. A number of targets were identified and Pétrolia is ready to begin drilling as soon as the conditions are favourable. However, the Company is actively looking for partners who wish to invest in this region.

As regards the Gaspésia, Edgar, Marcel-Tremblay, and Gastonguay properties, thermal-maturation studies have shown that a broad area of these properties is favourable for the preservation of natural gas, and that a small portion is favourable for the preservation of petroleum. In 2008, Pétrolia devoted much effort to the interpretation of the seismic data acquired over these properties. In addition, a regional geochemical survey was carried out in 2008 to examine the structures most likely to contain hydrocarbons. Integration of the seismic and geochemical results has identified targets for drilling, but additional seismic surveys will be required to locate them more precisely. For the time being Pétrolia is more focused on its petroleum potential. However, it is always on the lookout for partners for a gas-exploration venture in the Gaspé region.

Management analysis of financial information

Operating results and cash position

For fiscal year 2009, the Company's income is made up of interest income on short-term investments of $175,238 compared to $224,714 for fiscal year 2008, project management income of $11,706 compared to $26,736, and a gain on disposal of investment of $17,700.

The loss for the fiscal year of $854,911 is comparable to the loss for 2008 of $774,527.

The decrease in interest income is explained by the decrease in cash flows. The Company did not issue any shares during the last fiscal year. Following a drop in stock market investments, the investment, listed on the stock market, lost nearly 40% of its value as at September 30, 2008, resulting in an unrealized loss of $440,800.

As of September 30, 2009, the Company had cash and cash equivalents of $4,833,084, and its working capital was positive at $5,937,045.

During the fiscal year, the Company did not issue shares of its capital stock. However, as of December 4, 2009, the Company issued 7,960,568 shares in exchange for $7,129,910 cash. Management feels that the current cash situation is satisfactory to meet its current commitments. For its financial needs, the Company could be able to rely on its capacity to mobilize shareholders' equity through public offerings and negotiated private placements.

Analysis of general and administrative expenses

The main differences in the general and administrative expenses are:

- Stock-based compensation costs: 230,000 stock options were granted in 2009, compared to 1,350,000 stock options in 2008.
- Capital tax: Revenu Quebec rejected the capital tax exemption, since the oil and gas companies are not exempted , contrary to mining societies.
- Board of directors expenses: 2009 is the first fiscal year during which compensation was granted to the directors.

As of October 1, 2008, the Company hired employees of a related company "Géominex Inc.", whose main officer, holder of a minority interest, is also Pétrolia's director. Before this date, Géominex billed for fees that were recorded directly in deferred exploration work. Since October 1, 2008, the salaries of employees related to exploration work have been recorded in general expenses and allocated to the properties in question.

Selected annual information

	2009	2008	2007
	$	$	$
Revenue	204,644	255,174	52,924
Net loss	(854,911)	(774,527)	(288,145)
Basic and diluted net loss per share	(0.021)	(0.022)	(0.010)
Total assets	24,024,439	26,831,615	12,736,957
Dividend per share	N/A	N/A	N/A

Summary of quarterly results

			2009				2008	2007
	September	June	March	December	September	June	March	December
	$	$	$	$	$	$	$	$
Revenue	46,759	66,186	27,921	63,778	129,439	44,908	37,479	43,349
Net earnings (net loss)	386,447	(135,103)	(456,584)	(649,671)	(2,193,065)	1,487,502	(107,581)	38,617
Net earnings (net loss) per share								
Basic	0.0095	(0.0033)	(0.0112)	(0.0159)	(0.0623)	0.0448	(0.0035)	0.0013
Diluted	0.0073	(0.0033)	(0.0112)	(0.0159)	(0.0623)	0.0399	(0.0035)	0.001

The revenue consists mainly of interest earned for each of the quarters. General and administrative expenses are relatively stable from one quarter to another. The main changes in quarterly losses or profits are explained as follows:

2007 – December
Unrealized gain of $110,000 on a long-term investment recorded.

2008 – June
Unrealized gain of $1,590,000 on a long-term investment recorded.

2008 – September
Stock-based compensation of $461,325 and an unrealized loss of $1,380,000 on an investment recorded.

2009 – March
Capital tax of $164,124 for fiscal years 2006, 2007, and 2008, which the Company disputed through a notice of objection to Revenu Québec and an unrealized loss of $180,000 on an investment recorded.

2009 – September
Unrealized gain of $200,000 on the investment and future income taxes of $542,000 recorded.

Related-party transactions

Transactions were made with two companies (Géominex Inc. and Gestion Lestrois Inc.) whose main officer, holding a minority interest, is also a director of the Company:

	2009 $	2008 $
Salaries and fringe benefits	–	(16,445)
Travel	–	(1,069)
Maintenance and office supplies	–	(25,319)
Deferred exploration expenses	76,068	676,529
Promotion and entertainment	–	(1,045)
Telecommunications	–	(12,970)
Other expenses	8,668	(76,408)
Write-off of a receivable	62,205	–

As at September 30, 2009, $57,852 is due from these companies (2008 – $54,696).

Transactions were carried out with a director who acts as a consultant for the Company under the corporate name SEISServ:

	2009 $	2008 $
Deferred exploration expenses	47,421	66,314

The balance due to this director as at September 30, 2009, is $1,195 (2008 – $18,492).

The Company made the following transactions with Ressources Appalaches Inc, a company with the same chief executive officer:

	2009 $	2008 $
Deferred exploration expenses	64,000	–
Office supplies	3,632	3,600
Salaries and fringe benefits	276,724	245,156
Telecommunications	6,086	6,505

The balance due to this company as at September 30, 2009, is $16,179 (2008 – $63,039).

These transactions occurred in the normal course of business and were recorded at the fair exchange value, which is the amount of the established consideration accepted by the related parties.

Fourth quarter

The fourth quarter closed with a profit of $386,447 ($0.0095 per share). Income for the quarter is $46,759, and general and administrative expenses total $407,529. The profit is explained by the unrealized gain of $209,200 on the investment and the recording of future income taxes of $542,000.

New accounting standards

In October 2008, the Company adopted the following new sections of the Canadian Institute of Chartered Accountants (CICA) Handbook:

i) Section 3064, "Goodwill and Intangible Assets," replaces Section 3062, "Goodwill and Other Intangible Assets," and Section 3450, "Research and Development Costs." It establishes standards for the recognition, measurement, and presentation of goodwill and intangible assets. Section 1000, "Financial Statement Concepts," was also amended to be consistent with the new section.

ii) Section 1400, "General Standards of Financial Statement Presentation," establishes the conditions for measuring and presenting the Company's ability to continue as a going concern.

The Company adopted EIC-173 and EIC-174:

i) On January 20, 2009, the Emerging Issues Committee (EIC) of the CICA adopted Abstract No. 173 entitled "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" (EIC-173), which clarifies that the credit risk specific to the Company and the credit risk of the counterparty should be considered in the determination of the fair value of the financial assets and financial liabilities. EIC-173 must be applied retroactively, without restatement of the financial statements of prior periods, to all financial assets and financial liabilities valued at their fair value in the interim and annual financial statements of the periods ending on or after the issuance date of this abstract.

ii) On March 27, 2009, the EIC of the CICA adopted Abstract No. 174 entitled "Mining Exploration Costs," which specifies the fact that the company that initially recorded its exploration expenses in the assets is required, during the accounting period in question and the following periods, to determine whether the value of the exploration expenses recorded in assets must be reduced. EIC-174 must be applied to financial statements published after the release date of the abstract.

The adoption of these new sections and these new EICs had no significant impact on the Company's financial statements.

Future accounting standards

i) Section 1582, "Business Combinations," replaces Section 1581, "Business Combinations." It establishes standards for the recognition of a business combination and is the Canadian equivalent of IFRS 3 (revised), "Business Combinations." The section will be applied prospectively to business combinations with an acquisition date for the Company on or after October 1, 2011. Early application is acceptable.

ii) Section 1601, "Consolidated Financial Statements," and Section 1602, "Non-controlling Interests," replace Section 1600, "Consolidated Financial Statements." Section 1601 defines standards for preparing consolidated financial statements. Section 1602 defines standards for the recognition of non-controlling interests in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are equivalent to the corresponding provisions of IAS 27 (revised), "Consolidated and Separate Financial Statements." The sections will apply to interim and annual consolidated financial statements for fiscal years beginning on or after October 1, 2011. However, their early adoption is permitted from the start of a fiscal year.

iii) International Financial Reporting Standards
The CICA Accounting Standards Board (AcSB) has adopted a strategic plan to converge with the International Financial Reporting Standards (IFRS) for companies having public accountability obligations. As the AcSB confirmed on February 13, 2008, the conversion requires companies that have public accountability obligations to adopt the IFRS fully in 2011. For the Company, the transition to the IFRS will apply to interim and financial statements for fiscal years opened on or after October 1, 2011. The Company will switch to the new standards according to the schedules established by these new rules and will closely monitor all changes resulting from this convergence.

Its conversion project will be carried out in four stages: initial assessment, detailed assessment, design, and implementation. During fiscal years 2008 and 2009, the Company began the first stage, the initial assessment, which involves analyzing the main differences existing between GAAP and IFRS, as well as an examination of the possible options with regard to adoption.

The Company began the execution of the detailed evaluation and design stages. More specifically, in the detailed assessment stage, the Company will assess the impacts of the IFRS on accounting and financial reporting on systems and processes, business, employees, and others. This stage will determine the consequences of the change. Then, during the design stage, the Company will start the review of the accounting processes and systems that will be affected by the differences identified through analyses performed during the previous stages.

Finally, the implementation, planned for fiscal year 2011, will involve establishing the changes in policies, procedures, and practices as well as in IT systems.

Financial instruments

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 federal and provincial government and from partners. Therefore, Management considers the risk of non-performance on these instruments to be very minimal.

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. One of Management's main financial objectives is to maintain an optimal level of liquidities by actively managing the exploration work to be performed.

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 and gas accumulations, i.e., the quality and quantity of the resources, as well as development costs for a production infrastructure, financing costs, price of oil, and the competitive nature of the industry.

Significant investments are necessary to complete the exploration and reserve development programs. In the absence of cash flows generated by oil and gas operations, the Company depends on capital markets to finance its exploration and development activities. Market conditions and other unforeseeable events could have an impact on the Company's ability to raise the funds required for its development.

Market risk

Market risk is the risk that the fair value of the investment held for trading would fluctuate due to market price variations.

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 5.3

The deferred exploration expenses for the fiscal year ended September 30, 2009, are detailed as follows:

	Geology	Geophysical surveys	Drilling	Options	Total
	$	$	$	$	$
Anticosti	211,066	30,619	5,536	507	247,728
Gastonguay	13,962	168	303	–	14,433
Gaspésia–Edgar–Marcel-Tremblay	59,403	40,492	2,498	–	102,393
Gaspé	89,912	808	6,812	5,432	102,964
Bourque project	102,069	561,230	27,349	–	690,648
Haldimand project	320,359	1,551,682	1,669,712	–	3,541,753
Tar Point project	12,371	2,508	162,261	–	177,140
Dalhousie	82,821	871,007	16,171	1,186	971,185
	891,963	3,058,514	1,890,642	7,125	5,848,244

c) Rule 51-102 Section 5.4

Information on shares issued, warrants, and stock options as at December 15, 2009

Common shares: 48,874,787 common shares have been issued and are outstanding.

Warrants: Warrants can be exercised as follows:

- 3,333,332 shares at a price of $1.50 per share until December 6, 2010
- 1,750,000 shares at a minimum price of $1.00 per share until October 10, 2012
- 3,000,000 shares at a minimum price of $1.00 per share until January 10, 2013
- 2,163,161 shares at a minimum price of $1.30 per share until December 4, 2011

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

- 270,000 options exercisable at a price of $0.40 per share until March 15, 2010
- 1,075,000 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
- 50,000 options exercisable at a price of $0.74 per share until May 21, 2012
- 1,037,500 options exercisable at a price of $0.40 per share until June 21, 2012
- 600,000 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
- 577,500 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

Management's responsibility for financial information

Pétrolia's financial statements are the responsibility of Management and were approved by the board of directors under the recommendation of the audit committee. The financial statements were prepared by Management in accordance with Canadian generally accepted accounting principles. These financial statements were audited by the Company's auditors. 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 material respects.

Rimouski, December 15, 2009

On behalf of the Board

André Proulx
President