A COMPANY IN ACTION

ANNUAL REPORT

2012

MANAGEMENT DISCUSSION

PÉTROLIA

Quebec's Leader in Oil Exploration

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THE DEVELOPMENT OF EASTERN QUEBEC'S OIL AND GAS POTENTIAL HAS BECOME A TOP ECONOMIC PRIORITY.

André Proulx, president of the Company

MORE POSITIVE THAN EVER

Tapping into the resource wealth of the Gaspé Peninsula and Anticosti Island can help Quebec tackle its international trade deficit, stimulate private investment, create quality jobs, and generate new government revenues.

PRESIDENT'S MESSAGE TO SHAREHOLDERS

Pétrolia's goal is to create a full-fledged Quebec oil and gas company to meet the province's oil needs using Quebec's own resources. This goal now looks more realistic than ever.

Not that long ago, the idea of prospecting for oil in Quebec would have met with laughter. Today, developing the oil and gas potential of eastern Quebec is a top economic priority. By drawing attention to the massive potential of Anticosti Island, Pétrolia has been instrumental in this change of attitude.

And because of its potential impact on the Quebec economy, Pétrolia has attracted more media attention than a junior oil company normally would.

Quebec, along with a handful of countries that includes the U.S., is in the uniquely privileged position of being able to reduce its dependence on energy imports. Energy independence is a powerful economic driver that would provide Quebec with a clear competitive advantage. Pétrolia, which holds permits to over 70% of the province's land-based oil potential, could play a key role in the economic growth that would flow from developing this valuable resource.

However, helping Quebec achieve energy independence comes with certain conditions, namely environmental stewardship, respect for local communities and transparency. Recent opinion polls show that Quebecers strongly support oil and gas development provided the communities affected are taken into consideration. Pétrolia's efforts to promote social acceptance of its projects over the last few years have proven to be a smart strategy and must continue with the same energy and commitment.

In 2012 Pétrolia made its mark once again by undertaking three drilling campaigns on the Gaspé Peninsula, conducting stratigraphic corehole on Anticosti, teaming up with the scientific community on research programs, and launching communication initiatives, making it the most active company in Quebec's oil and gas industry.

Along with its ambitions of replacing Quebec's oil and gas imports with local production, Pétrolia aims to help build an entire industry, which could transform the Quebec economy in the same way that it is driving the recovery of the world's largest economy. Oil and gas production in eastern Quebec would also encourage the onsite processing of other natural resources there where they are produced.

By tapping into the resource wealth of the Gaspé Peninsula and Anticosti Island, Quebec could conceivably correct its international trade deficit, stimulate private investment, create quality jobs and generate new government revenues. Developing these resources will also improve prospects for young people in the resource regions and help stem the regional drain.

The Quebec government recently expressed its willingness to allow oil and gas production in the province. This position, clearly reiterated several times, could mark a turning point for our young company. If the Haldimand 4 well lives up to its promise, Pétrolia will be able to book the reserves on its balance sheet and embark on the path to becoming a producer. As well, drilling could begin on Anticosti Island to determine the production capacity of the Macasty source rock. Confirmation of Anticosti's potential would be a defining moment in Quebec's history and pave the way to tremendous growth opportunities for our Company.

Through its work, Pétrolia has acquired enviable technical expertise and knowledge with few parallels in Quebec. Our vision and approach are both original and innovative, forming the foundation on which to build a full-fledged oil and gas company that can play a key role in Quebec's economic development.

Looking ahead, the Company will face the tough challenge of managing the growth generated by its success. To meet this challenge, Management is exploring the type of organizational structure to put in place, the expertise required and how to best plan for succession.

In many respects, the conditions are ripe for our exploration company to become an oil producer and achieve its objective for the benefit of its shareholders and the Quebec economy.

André Proulx, president of the Company

Oil from Quebec

AS A PUBLIC RESOURCE, QUEBEC OIL MUST BE PRODUCED IN AN ENVIRONMENTALLY RESPONSIBLE MANNER THAT INVOLVES AND RESPECTS LOCAL COMMUNITIES.

VISION

OIL FROM HERE Pétrolia sincerely believes that Quebec has vast oil reserves, which is why it is drawing attention to the province's immense resource wealth. The oil discovered in Gaspésie is of excellent quality and Anticosti Island harbours tremendous oil potential, offering Quebecers a unique opportunity to create an industry that will benefit current and future generations. Quebec's oil resources are located in the eastern part of the province, where job creation is a constant issue. It goes without saying that production must proceed in an environmentally responsible manner, with respect for and the cooperation of local communities.

Why not then produce oil, sustainably, here at home, and build an even brighter future for Quebecers?

BY THE PEOPLE HERE Oil is a part of Quebec's collective wealth and must be developed for everyone's benefit. Pétrolia believes that production should be controlled locally and that the acquisition of Quebec expertise should be encouraged. Therefore, in developing the oil potential of eastern Quebec, Pétrolia use the services of local companies whenever possible. Encouraging business creation at home in order to increase spinoffs and generate jobs is a top priority. And fostering the emergence of a new industry gives real meaning to produce our hydrocarbons.

FOR HERE Quebec oil is a responsible alternative to imported oil. Reducing dependence on oil imports means decreasing Quebec's international trade deficit, creating quality jobs and providing the government with additional revenues that to help pay for public services. Producing oil for local consumption is also a way of offering future generations in the regions good prospects for quality, sustainable jobs. By developing eastern Quebec's oil resources, we are paving the way to the sustainable development of Quebec and its regions.

WHERE THE ACTION IS

Pétrolia's determination, novel approach, and transparency with the public have paid off, tracing a path the Company will continue to follow.

THE YEAR IN REVIEW

Despite the slowdown in oil and gas industry activity in Quebec, Pétrolia had a particularly busy year in 2012.

Through its exploration work, communication initiatives, community relations, knowledge acquisition activities and successful efforts to secure financing, the Company consolidated its position as an industry leader in Quebec. The media attention it attracted throughout the year is testimony to Pétrolia's potential and the role it could play in Quebec's economic development.

In the Haldimand sector of the Gaspé Peninsula, Pétrolia is behind the first discovery of significant oil reserves in Quebec. The Company continued its efforts to bring this first deposit into commercial production. The injectivity tests conducted in fall 2011 on Haldimand 1 improved the well's natural productivity and provided further support for the hypothesis that a naturally fractured reservoir can produce without stimulation.

With its partner Québénergie, the Company increased its interest in the Haldimand permit. The two partners now own this first deposit outright. The Company also obtained authorization for a third well on the structure to determine the deposit's production capacity and clarify the extent of the reservoir. The drilling, which will begin in early 2013, is the first step towards obtaining a production permit.

Alongside its efforts to develop Haldimand, Pétrolia renewed work on the Bourque project by obtaining drilling permits for Bourque 1 and Bourque 2. Work on these two wells and on Haldimand 4 was able to proceed after the Company secured over $15.75 million in financing. However, at the time of writing, both Bourque projects had been suspended pending additional production tests and an evaluation of the commercial potential of the oil found during drilling.

During the year, Pétrolia drilled three stratigraphic coreholes on Anticosti Island. The cores were sent to a lab for testing to confirm the presence of hydrocarbons in the Macasty Formation, better estimate its potential and determine the petrophysical properties of the rock. This work will also help the Company pinpoint where to locate future drilling and to take the necessary steps to undertake a drilling campaign as soon as possible.

Preliminary results for the core sample extracted from Princeton Lake reveal that the Macasty Formation is 103 metres thick and that the organic matter content exceeds expectations. Moreover, its porosity and permeability compare favourably with those of formations already in production. Detailed results of these analyses will be released in 2013.

In conjunction with its exploration activities, Pétrolia initiated hydrogeological studies of the areas under exploration. Led by the Eau Terre Environnement Research Centre of the Institut national de la recherche scientifique (INRS-ETE), these studies seek to determine the potential effect of drilling on groundwater and identify the most vulnerable areas so that protective measures can be implemented as required. Observation wells have been drilled to enable the researchers to assess and develop models of the hydrogeological systems in the Haldimand and Anticosti sectors as well as to allow for environmental monitoring.

This initiative, the first of its kind in Quebec's oil and gas industry, addresses one of the public's main and repeatedly expressed concerns, which Pétrolia felt merited careful and detailed examination. By enlisting the assistance of the scientific community, namely INRS-ETE, the Company has acknowledged the legitimacy of these concerns.

The oil industry is still misunderstood in Quebec. Consequently, Pétrolia made unparalleled efforts in 2012 to foster social acceptance of its projects. The websites created for each of the three wells planned in the Gaspé Peninsula, the public information sessions and a series of programs aired on community television were all well received by the communities in which the Company operates. Pétrolia's goal is to provide the public with quality, verifiable information. Keeping the channels of communication open and maintaining transparency in its relationships with local communities is and will remain a priority. Judging by the reaction to date, it appears that Pétrolia is on the right track.

On the government side, it appears that support for oil development will soon translate into concrete action. Recent declarations in support of the development of Quebec's oil reserves reinforce the perception that the government wants to create the necessary conditions to develop this valuable natural resource.

Priorities for the year ahead include evaluating the wells drilled in 2012, obtaining a production permit, and continuing to develop the potential of Anticosti Island. The Company also plans to further strengthen its technical and administrative expertise. Pétrolia's novel approach, transparency with the public and determination have paid off, and the Company will continue on this path.

Pétrolia has tremendous potential for growth. This growth will bring new challenges that Management will pay close attention to in the years ahead.

A resource for all to share

WORKING TOWARD AN ENERGY-INDEPENDENT QUEBEC

AN INDUSTRY ON THE MOVE

Producing our own oil is another way to provide future generations in the regions with access to quality, sustainable jobs.

ANNUAL MANAGEMENT REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2012

This management report is an addition and supplement to the audited financial statements for the fiscal years ended September 30, 2012 and 2011 and should be read in conjunction with those statements, which were prepared in accordance with international financial reporting standards (IFRS).

This management report presents Management's views on current Company activities and on the annual financial results, as well as an overview of the activities of the next fiscal year.

DATE

The effective date of this management report is December 11, 2012.

INCORPORATION AND MISSION

The Company, incorporated under Part 1A of the Quebec *Companies Act* and governed by the provisions of the Quebec *Business Corporations Act*, is an oil and gas exploration company. The Company has been trading on the TSX Venture Exchange since February 16, 2005 under the symbol PEA. The Company's oil and gas properties are at the exploration stage. The Company's long-term profitability is tied in part to the cost and success of the exploration programs and subsequent development. Pétrolia is attempting to determine whether its properties hold economically profitable reserves. Pétrolia's core business is exploring and developing oil and gas properties. In order to achieve its objectives, the Company has to form partnerships with other industry actors.

FORWARD-LOOKING STATEMENTS

Certain statements in this document are "forward-looking statements." Such statements relate to future events or future economic results anticipated by Pétrolia and are therefore subject to known and unknown risks, uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Accordingly, any decision to invest in Pétrolia shares should in no way be based on these forward-looking statements. The Company undertakes no obligation to update or revise any forward-looking statements.

ACTIVITIES

Pétrolia is a Quebec-based junior oil exploration company that focuses on territories where the chances of success are higher in order to provide short-term returns. Its activities take place primarily in the Gaspé region and on Anticosti Island, where the main oil potential in Quebec is located.

2012 HIGHLIGHTS

- Pétrolia and Québénergie increase their stake in Haldimand to 100%;
- Macasty comparable to Utica in Ohio;
- Secured $10 million in financing from Investissement Québec;
- Secured $5.75 million in financing from two banks (Laurentian Bank and National Bank Financial);
- Obtained three drilling permits and launched a drilling campaign for three wells in Gaspé (Bourque 1, Bourque 2 and Haldimand 4);
- Launched a campaign to conduct three stratigraphic surveys on Anticosti Island;
- Inked an agreement with the INRS-ETE to conduct hydrogeological assessments in the Haldimand sector and on Anticosti Island;
- Signed an agreement with Université du Québec à Chicoutimi (UQAC) to foster social acceptance and to define a sustainable development policy within the Company.

STRATEGY AND OUTLOOK

Pétrolia's mission is to discover marketable oil resources and to put them into production as soon as possible in order to ensure its profitability. In the pursuit of this mission, the Company never loses sight of the importance of environmental protection and community relations. To this end, Pétrolia holds rights in promising licences and associates with partners with the appropriate technical and financial resources. The Company relies on scientific knowledge before it installs its wells, which are drilled using best industry practices and techniques. Special attention is paid to building alliances with the communities where it carries out its activities.

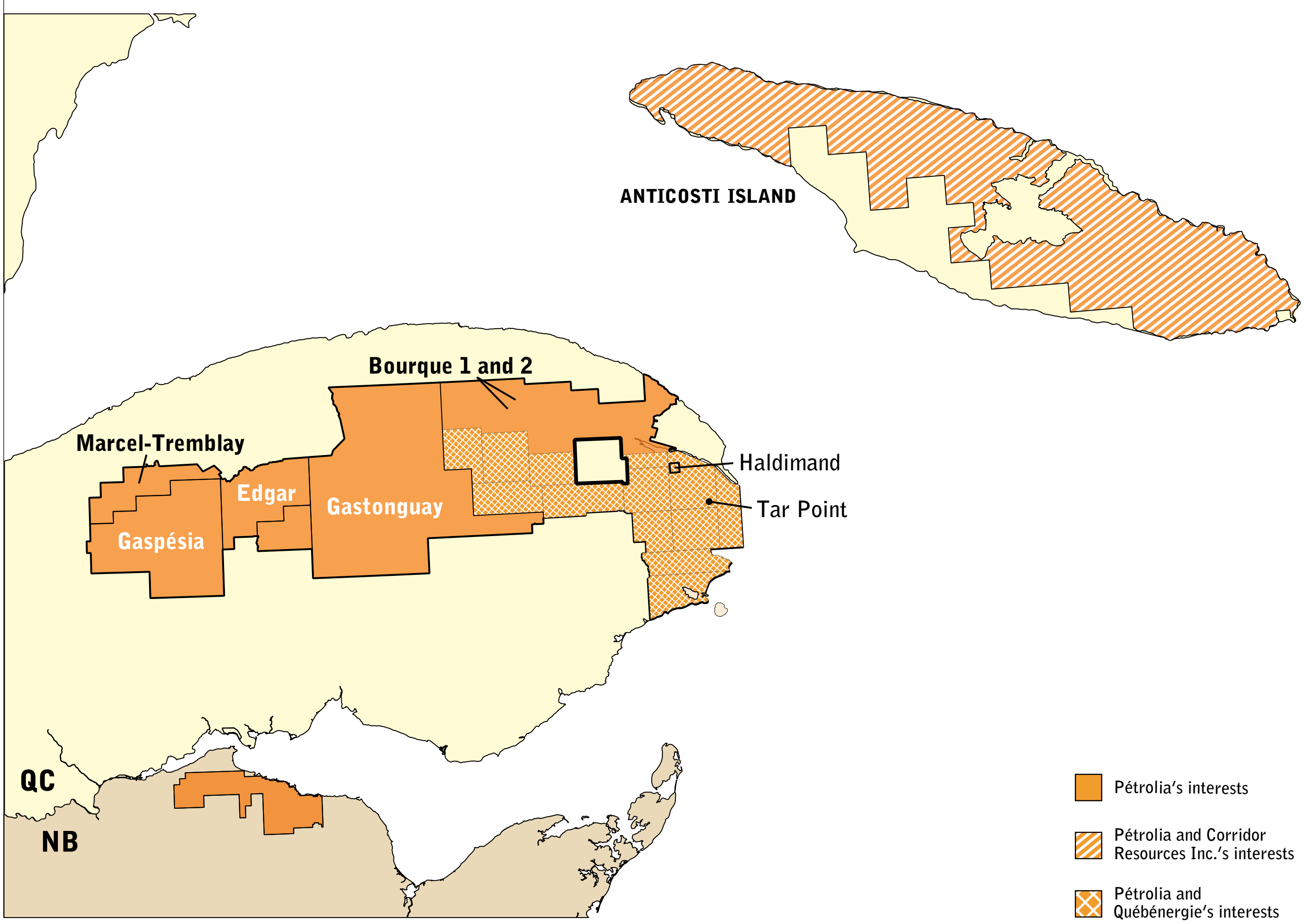
LICENCES AND PARTNERSHIPS

Pétrolia holds licences for and interests in over 14,000 km², i.e. close to 20% of the Quebec territory under lease.

On Anticosti Island, Pétrolia holds interests in 35 licences on over 6,000 km². Its interest is 25% in six of these licences and 50% in the remaining 29. Corridor Resources Inc. holds the remainder. The licences on Anticosti Island are covered by a joint operations agreement (JOA) under which Pétrolia is the operator of 26 of these licences.

In the first quarter of the previous fiscal year, Pétrolia entered into a partnership agreement with Québénergie, a subsidiary of SCDM (Paris), to speed up the development of the Haldimand deposit and surrounding territory. Each partner holds a 50% interest in the 13 licences covered by the agreement.

The following map shows the territories in which Pétrolia holds an interest as well as those covered by the partnership agreements.



A DOMINANT POSITION

In Quebec, oil resources are found in the east of the province, in the Gaspé region, on Anticosti Island, and perhaps in the Gulf of St. Lawrence. Since it was founded in 2003, the Company has acquired licences that cover more than 14,000 km², mainly in the Gaspé region and on Anticosti Island. These licences cover more than 70% of Quebec's land petroleum potential.

Main reasons behind Pétrolia's leadership position:

- Strategic decision to focus on oil exploration;
- Acquisition of licences conducive to oil discovery;
- Increase in oil and gas prices;
- The Company's level of activity, and;
- Pétrolia's innovative approach to the environment and community relations.

Based on the results obtained to date, the Company has a very promising future.

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

FINANCING

On May 16, 2012, Pétrolia announced the closing of a private placement totalling $15,750,004, in accordance with the conditions established at the time the placement was announced.

As part of this placement, Investissement Québec purchased 7,042,254 units (the "Units") of the Company at $1.42 per Unit for total gross proceeds of $10,000,000. Each Unit is made up of one common share and one half warrant; each whole warrant allows the bearer to acquire one common share of the Company at a price of $1.78 for a period of 36 months following the closing date.

In addition to Investissement Québec's private placement, the Company announced an agreement with Laurentian Bank Securities Inc. and National Bank Financial Inc. (the "Underwriters") under which the Underwriters agreed to purchase, on a bought deal private placement basis, 4,049,298 Units of the Company, at the same terms and conditions as the Investissement Québec private placement, for total gross proceeds of $5,750,004.

The total gross proceeds of these private placements are $15,750,004, which will be used mainly to finance the Company's drilling campaign. In summer 2012, the Company began drilling two wells on the Bourque property and one well on the Haldimand property. At the time of writing this report, the Pétrolia Bourque 1 and Bourque 2 wells had been completed and were awaiting production tests. Haldimand 4 will be drilled as soon as Bourque 2 is completed.

PROPERTIES AND WORKS

1. Haldimand property

Oil exploration first began in the Gaspé Peninsula in 1836, when locals discovered oil seeping out of the ground (*seepage*). Starting in 1860, the people of Gaspé regularly dug wells. By the middle of the 19th century, the Geological Survey of Canada had mapped the main geological formations and structures of the Gaspé Peninsula. It was not until 1884, however, that scientific and government reports confirmed the existence of oil in the region. Discovered in 2006 by Pétrolia, the Haldimand deposit is located on the peninsula of the same name on the outskirts of the town of Gaspé. The resources initially in place were estimated at 70 million barrels by an independent expert, who placed the quantity of recoverable oil at 7.7 million barrels.

1.1 Objectives

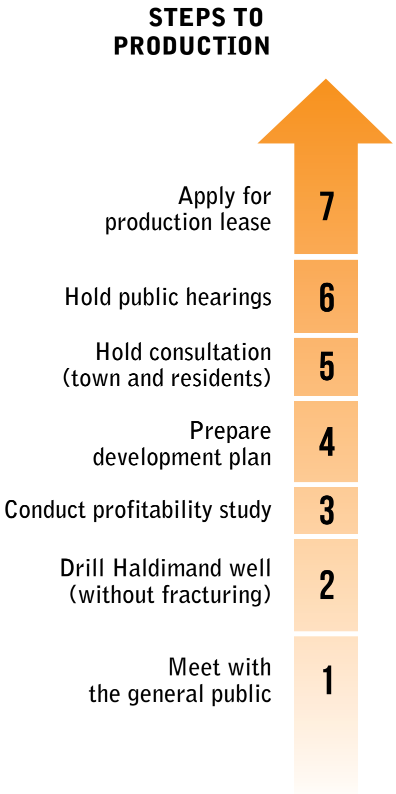
In accordance with the Company's strategy, putting the Haldimand deposit into production is the priority. Drilling a horizontal well to intercept as many natural fractures as possible appears to be the best way to achieve this objective in the short term.

1.2 Studies and projects

Following its laboratory and field studies and analyses, the Company now has a better understanding of the Haldimand reservoir and its production mechanism. The reservoir appears to be made up of a network of natural fractures that ensure the free flow of oil. This is an important discovery that allows Pétrolia to consider conventional exploitation.

The next well will be drilled in early 2013. This third well on this structure may confirm the assumption that conventional production for the deposit is possible and profitable.

The following diagram shows the main steps to put the deposit into production.



This past year, Pétrolia obtained two drilling licences for the Haldimand project. Pétrolia decided to focus on the Haldimand 4 well because it offers the best chance of success since the drilling will intercept the greatest number of natural fractures and provide additional information about the deposit.

It bears mentioning that in the first quarter of the year ended September 30, 2011, Pétrolia conducted an injectivity test on the Haldimand 1 well. This cleaned the investigated area of the well and increased the well's productivity. After the test was completed in December 2011, drilling was suspended pending the results of Haldimand 4. The injectivity test also provided a host of information on the characteristics of the Haldimand reservoir and confirmed the assumption that production will be assured by a network of natural fractures.

1.2.1 Studies

Studies were conducted in the first quarter to understand the deposit's natural permeability mechanism and how the oil and gas is distributed in the reservoir.

These studies were intended to determine the possible trajectories of new wells in order to optimize the natural productive potential. The drilling of the next well should provide a better understanding of the scope of the Haldimand structure and confirm the reserves.

The construction of the first version of a 3D digital model of the Haldimand deposit has now been completed. This model will be used to integrate the results of the next well on the structure (Haldimand 4) and to plan future work.

1.2.2 Work

Preparatory work for the drilling of Haldimand 4 was completed in the third quarter. Once Bourque 1 and 2 have been drilled, Precision Drilling's 501 rig will be brought to the site. This should be in early 2013.

Pétrolia received a drilling licence on June 4, 2012 from the Ministère des Ressources naturelles. This sub-horizontal well will reach a total depth of 1,000 metres and its sub-horizontal section will be 2,000 metres long. No fracturing is planned.

Under the agreement with Québénergie, the partners will assume most of Pétrolia's participation costs for the Haldimand 4 well. The private financing announced in April 2012 will be used to cover Pétrolia's share of the costs for this third well.

Pétrolia has launched a website for the Haldimand project where visitors can obtain information on the project and track the progress of the work: haldimand.petroliagaz.com.

1.3 Environmental work and studies

The Company is also working on a plan to acquire scientific and environmental monitoring information.

Pétrolia is working with scientists from various Quebec universities (INRS-ETE) to learn how its work impacts the physical environment. Begun in the first quarter, this project will continue over the next five years.

As such, in fall 2011, the INRS-ETE undertook a hydrogeological assessment of the Haldimand peninsula and set up an environmental monitoring mechanism for Pétrolia's oil operations. Several observation wells were completed to collect water samples and make geophysical logs in order to construct a hydrogeological model of the peninsula. As the following table shows, the first phase work has progressed significantly since the program was launched:

Monitoring of Haldimand hydrogeological work

Field Activities	Planned	Completed to Date
Observation wells	15	15
Hydraulic tests	17	11
Water samples and analysis	83	76
Environmental logs	13	13

The INRS-ETE will be responsible for designing the plan and monitoring the work. The information and results from this study and five-year monitoring plan will be released periodically.

Pétrolia is very proud of its innovative relationship with Quebec's universities, established from the earliest stages of its activities, as well as the universities' collaboration with industry stakeholders.

2. Bourque property

The Bourque property has potential for a major discovery. The Bourque project is very important to Pétrolia in view of the potential discoveries and the interest it raises in the Company's other properties in the Gaspé region where similar geological conditions prevail.

A 3D seismic survey undertaken by Pétrolia in 2008 suggested the presence of reef-type structures in the West Point Formation, an older geological formation than York River. This type of classic trap can store considerable quantities of oil and gas. One of the traps is a pinnacle reef, which is the drilling target of the Bourque 2 well. In Alberta, giant oilfields have been discovered in this type of structure, marking a turning point in that province.

2.1 Objectives

Located 70 km west of the town of Gaspé, the Bourque project offers an opportunity to discover a significant conventional reef-type deposit. The total depth of the targets ranges from 2,000 to 3,200 metres.

Target areas for two wells have been identified and drilling programs have been submitted to the Ministère des Ressources naturelles, which granted Pétrolia the necessary drilling licences in the third quarter.

2.2 Drilling

Drilling on Bourque 1 began July 19, 2012. The well, which has a measured depth of 3,140 metres, reached a vertical depth of 2,921 metres. Once drilling was completed, tubing was installed and a production test conducted over a 914-metre hole between depths of 1,832 and 2,746 metres. This area indicated oil and gas shows during drilling as well as during the different drill stem tests. For more information in this regard, see the press release of October 31, 2012.

Moreover, the data collected during the drilling of Bourque 1 and that will be compiled when Bourque 2 is drilled may suggest the presence of other exploration targets. However, more advanced analyses will be required in this regard.

In the interim, a natural gas discovery that will be tested in Bourque 1 will be a new exploration target for this project, which will generate significant regional economic spinoffs associated with raw material processing carried out by other industries that will be drawn to the region.

The main target of the Bourque 2 campaign, which began October 31, 2012, is a pinnacle reef in the West Point Formation, located at a depth of 2,150 metres.

Pétrolia has created a website for the Bourque project where visitors can obtain information and track the progress of the work: bourque.petroliagaz.com.

The Company is sensitive to the community's legitimate desire to derive benefits from the exploration work and potential oil production. Although the oil industry service sector is still in its infancy in Quebec, the economic spinoffs of drilling Bourque 1 amounted to $2.6 million for the province, of which more than 45% benefited workers and businesses in Gaspésie.

3. Anticosti property

On Anticosti Island, the partners have taken the initiative to evaluate the development of hydrocarbon source rock, which has attracted the most attention due to its immense potential.

In fact, the geological formations of Anticosti Island meet the four criteria sought in a petroleum system, namely highly oil-prone source rock, a good quality reservoir, impermeable cap rock, and the presence of numerous large-scale traps. This vast territory offers a number of potential drill targets.

3.1 Hydrocarbon source rock: a primary exploration target

The shale core sample taken from the Chaloupe 1 well drilled in summer 2010 at the Macasty Formation created a new oil play on Anticosti Island. This formation is the lateral equivalent of the Utica Formation in Ohio, which has garnered significant industry attention, showing that it is capable of producing substantial volumes of oil and gas.

The analyses performed by the laboratories of Weatherford, in Houston, and by Schlumberger Canada (Calgary) confirm that this formation is rich in oil and has the characteristics required to develop this potential exploration target.

On June 29, 2011, Pétrolia unveiled the estimate of the Macasty in-place oil reserves conducted by Sproule Associates Limited, a petroleum consulting firm based in Calgary. Sproule's best estimate for the total volume of initially-in-place oil in the Macasty Formation covered by licences in which Pétrolia has an interest is 30.9 billion barrels.

The Company's interests cover more than 6,000 km^2, i.e. 75% of the Island's total area. There is a 10% probability that this volume is equal to or greater than 48.2 billion barrels (high estimate), and a 90% probability that it amounts to at least 19.8 billion barrels.

In addition, on December 1, 2011, the partners released new analytical data indicating similarities with the Utica shale found in Ohio. The analyses were conducted at the lab facilities of a major, independent company with extensive experience in the exploration and production of hydrocarbon source rock. The results were more favourable than the ones released by the partners on February 9, 2011, confirming strong oil and gas production potential for the Macasty Formation.

The comparative study of the Macasty Formation and the Utica shale conducted in an earlier quarter confirmed the promising petrophysical characteristics of the Macasty shale, as the following table shows.

Parameters	Macasty, Quebec	Utica, Ohio
Mineralogy (%)	quartz 40-50 carbonate 5-30 clay 20-40	quartz 5-15 carbonate 40-60 clay 20-40
Depth (m)	40	40
Porosity (%)	2.4 to 5.1	2 to 4
Light oil saturation (%)	25.0 to 31.3	20
Total organic carbon (% weight)	2.38 to 5.74	2 to 4

3.2 Work

As it usually does, the Company developed a pre-drilling program to demonstrate Macasty's production capacity. The purpose of this program is to learn more about this formation by performing new lab analyses from existing data as well as from new samples.

This past year, Pétrolia developed a work program to determine the oil potential of the Macasty source rock that calls for:

1) Analyzing drill cuttings and core samples taken from the drill core library of the Ministère des Ressources naturelles to fine-tune the Macasty total organic carbon (TOC) distribution and thermal maturity (Ro) maps. This data will allow Pétrolia to pinpoint the best oil potential on the island as well as the best locations for future drilling;

2) Conducting three stratigraphic surveys to gather new cores in order to further analyze the organic matter;

3) Conducting a study of the hydrogeological system similar to the one conducted in Gaspésie. This study, also carried out by the INRS-ETE, required Pétrolia to drill 14 water wells on 10 sites.

3.3 The potential of conventional reservoir rock

Although the Company is focusing its exploration efforts on evaluating the potential of the Macasty source rock, conventional reservoirs will still be considered for drilling targets when planning future works.

Oil companies have been looking for oil in conventional structures on the island since 1960 but no conclusive results have been found to date.

Shell was the first to search for fault structures, followed by Hydro-Québec and Corridor Resources Inc. These types of structures, known in industry jargon as sags, were very successful in the Appalachian Basin (Ontario and New York State). While exploration by Pétrolia and Corridor in 2010 failed to meet expectations in terms of discoveries, it did confirm the existence of high-quality reservoirs.

For now, the Company would rather focus on developing Macasty's oil potential. However, it is not ruling out the possibility of evaluating this type of structural trap in the future.

3.4 Search for partners

The exploration program for the Macasty hydrocarbon source rock is currently in the early stages. More extensive exploratory work will be required to determine the potential for commercial recovery of resources in this Formation. Developing Anticosti Island will require considerable capital over the next few years. Finding partners with the requisite financial and technical resources is therefore a priority. Pétrolia is currently assessing its options in the best interests of its shareholders.

3.5 Environmental research

Pétrolia has confirmed that as a private-sector partner, it will support the work of the Université Laval's Anticosti Chair. A project has been developed to determine the impact of oil operations on the behaviour of white-tailed deer, an important economic and tourism resource for Anticosti Island.

The Anticosti Chair has received confirmation from the Natural Sciences and Engineering Research Council of Canada (NSERC) that its budget will be renewed. Pétrolia is proud to be associated with the Anticosti Chair's work. This research will provide the knowledge needed to adapt practices so as to promote eco-friendly development. Our contribution ($200,000 over five years) attests to the Company's engagement in the communities in which it operates.

In keeping with Pétrolia's desire to develop oil resources responsibly and the importance placed on water resources, the discovery of Macasty source rock justifies carrying out hydrogeological work with the INRS-ETE. Pétrolia is therefore supporting work on Anticosti Island that is similar to the work currently underway on the Haldimand Peninsula aimed at characterizing the regional hydrogeological system and monitoring the exploration work. Pétrolia's support of the INRS-ETE's work will make it possible to set up the initial infrastructure required for this study before the end of 2012. While not mandatory, this work is consistent with the responsible approach adopted by Pétrolia vis-à-vis the physical and social environments in which the Company operates.

This work is intended to enhance the Company's knowledge, more specifically:

- Whether there is a connection between the formation where oil resources are located and the subsurface hydrogeological system;
- If, and how, exploration activities, particularly drilling, affect water resources;
- What mitigation measures could be put in place to minimize the impact of oil operations on the hydrogeological system.

The INRS-ETE was invited to conduct this study in order to expand its scientific knowledge. Pétrolia's work offers the Institute an opportunity to conduct research and will enable scientists to determine whether oil exploration and production affect the quality of subsurface water.

More specifically, the three-year study will:

- Drill 14 observation wells on 10 sites and collect subsurface water samples to characterize water quality;
- Obtain a detailed characterization of the existing geological and hydrogeological conditions;
- Monitor the change in water quality during the work performed by Pétrolia and put in place a system to detect and correct potential problems;
- Integrate the results and make recommendations to minimize the potential impact of oil activities on subsurface water.

This study, which involves a partnership between academia, the oil industry and the regional community, is an innovative and responsible initiative. A hydrogeological study of this magnitude is a first on Anticosti Island.

Monitoring of hydrogeological work on Anticosti Island

Work	Planned	Completed to Date
Observation wells	14	14
Hydraulic tests	1	1
Water samples and analyses	37	0
Water table monitoring	2	0
Logging	10	7

4. Tar Point property

Drilled in 2009 and located 15 kilometres southeast of the Haldimand wells, Tar Point 1 bottomed out at 2,434 metres. This well crosses the entire York River Formation as well as part of the Indian Cove Formation. There were few signs of oil in the York River Formation but light crude was found in February 2010 during a production test on a fractured zone of the Indian Cove Formation.

Pétrolia is also developing a program for Tar Point to acquire scientific and environmental monitoring information. The hydrogeological study mentioned in the previous section also includes Tar Point. The following table shows the progress of the work in this sector.

Monitoring of hydrogeological work at Tar Point

Work	Planned	Completed to Date
Observation wells	3	3
Hydraulic tests	4	4
Water samples and analyses	6	6
Water table monitoring	1	1

4.1 Objectives

The objective is to demonstrate the Indian Cove Formation's capacity for commercial oil production. Since signs of oil have been systematically observed in this formation, this area offers an interesting exploration target in Gaspésie.

4.2 Studies and projects

The drilling results for Tar Point 1 confirm the oil potential of the Indian Cove Formation, which is a naturally fractured reservoir. The analysis of the injectivity test conducted in the first quarter has been completed. An evaluation of the various options that will allow exploitation of this formation have, however, been postponed to allow the Company to focus all its attention on the Gaspésie drilling campaign.

5. Other properties

In 2011 a seismic program was prepared to identify a drilling target on a potential trap discovered during a 2008 seismic survey. On July 16, 2012 the Ministère des Ressources naturelles issued the geophysical surveying licence required to carry out this work. The Company had planned to conduct the survey in 2012 but decided instead to focus its efforts on the Anticosti drilling campaign.

Given that thermal maturity studies indicate that gas is more likely to be discovered in this target, the Company made it a priority to develop the Haldimand property. However, the potential emergence of gas projects in the region could rekindle the Company's interest in the gas potential on the Gaspé property.

The status of licences in New Brunswick has not changed. Pétrolia will continue monitoring the situation in this province.

6. Changes to the legislative and regulatory framework

Pétrolia has not been affected by the results of the provincial election in September as the new government is also committed to fostering the development of Quebec's oil resources. Pétrolia's Management is monitoring the situation closely and plans to cooperate with the newly elected government so that it can put in place conditions conducive to developing Quebec's oil potential and creating an oil industry service sector.


TROLIA 2361 TAR
TROLIA 2364 TAR
2367 TAR POINT
TROLIA TAR

MANAGEMENT ANALYSIS
OF FINANCIAL INFORMATION

Operating results and cash position

In fiscal 2012, the Company's revenues consisted of interest income on short-term investments of $236,680 compared with $133,587 for fiscal 2011 and project management income of $22,340 compared to $44,854 last year, and rental income of $12,156 in 2012 only. Revenues from oil reservoir evaluations stood at $29,453, against $107,021 in 2011 and are recorded as a reduction in exploration expenses.

The increase in interest income stems from the increase in cash flow, achieved as a result of the financing completed in May 2012, which generated an inflow of $15,750,004, as well as the exercise of warrants and options totalling $804,344.

As at September 30, 2012, the Company had cash and cash equivalents of $10,242,262 and working capital of $13,447,802.

For fiscal 2012, the Company recorded a loss of $3,019,033, compared to a profit of $2,170,960 last year, primarily due to a gain on the disposal of interests in some of its licences.

Management does not believe it will have sufficient cash to meet its obligations and projected expenses until September 30, 2013. The Company can raise capital to offset the shortfall in a variety of ways, for example, by issuing new debt securities and equity, implementing new cost-cutting measures and finding new partners. However, a positive subsequent event is reflected at the Note 27 of the financial statement.

Analysis of operating and administrative expenses

Operating and administrative expenses rose $1,983,415, mainly due to an increase in the Company's exploration activities and costs associated with the social acceptability of its projects.

The main differences in the operating and administrative expenses are:

- Share-based payment: 1,341,000 options valued at $639,692 were granted in 2012, compared to 1,495,000 options in 2011 for a value of $500,208.
- Salaries and benefits: Operations-related payroll fell slightly. Administrative staff was hired to respond to the needs of the community and government authorities;
- Promotion and entertainment: Publicity and promotion expenses rose over last year, mainly due to activities associated with social acceptability.
- Professional fees: Fees were incurred for recruitment and to settle legal disputes.
- Rent: Lease expenses rose in 2012 mainly due to the expansion of the Québec City offices.
- Depreciation of capital assets: The increase in depreciation expenses is mainly due to the depreciation of four reservoirs and of leasehold improvements to new offices.

Selected annual information

	2012	2011	2010
	$	$	$
Revenue	271,176	178,441	26,102 (1)
Profit (loss)	(3,019,033)	2,170,960	(1,358,529)(1)
Basic net earnings (loss) per share	(0.051)	0.042	(0.028)(1)
Diluted net earnings (loss) per share	(0.051)	0.041	(0.028)(1)
Total assets	52,400,180	40,536,750	30,994,857 (1)
Dividend per share	N/A	N/A	N/A

(1) According to Canadian GAAP before the changeover to IFRS.

Summary of quarterly results

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

	2012			2011				2010
	September	June	March	December	September	June	March	December
	$	$	$	$	$	$	$	$
Revenue	93,806	50,430	48,451	78,489	75,160	51,373	45,386	6,522
Net earnings	(494,129)	(675,032)	(699,230)	(1,150,642)	(443,251)	(672,511)	(512,133)	3,485,658
Net earnings per share								
Basic	(0.010)	(0.012)	(0.013)	(0.022)	(0.010)	(0.013)	(0.035)	0.069
Diluted	(0.010)	(0.012)	(0.013)	(0.022)	(0.010)	(0.013)	(0.035)	0.057

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

2010 – December Recognition of share-based payment of $82,800 and a $5,158,607 gain on disposal of interests in certain licences;

2011 – February Recognition of share-based payment of $71,400;

2011 – May Recognition of share-based payment of $160,750;

2011 – September Restatement of all share-based payment for the year using the graded vested method; this restatement had a non-monetary impact of $185,258;

2011 – December Recognition of share-based payment of $558,992;

2012 – February Recognition of share-based payment of $80,700.

Fourth quarter

The fourth quarter closed with a loss of $494,129 ($0.01 per share).
Revenue for the quarter stood at $93,806.

Related party transactions

The Company's related parties include other related parties and key management personnel, as described below.

Unless otherwise indicated, none of the transactions involve special terms or conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

Transactions with key management personnel

Key management personnel remuneration includes the following expenses:

For the year ended September 30	2012	2011
	$	$
Short-term employee benefits:		
Salaries and benefits	685,882	413,589
Directors' fees	126,817	109,133
Total short-term benefits	812,699	522,722
Share-based payments	473,206	451,327
Total remuneration	1,285,905	974,049

During the 2012 reporting period, key management exercised 547,500 (312,500 – 2011) options granted under the share-based compensation plan.

Related parties

The Company entered into the following transactions with two companies whose main officer (holding a minority interest) also serves on Pétrolia's board:

For the year ended September 30	2012	2011
	$	$
Statement of financial position:		
Exploration and evaluation assets	5,300	–
Statement of comprehensive income:		
Other expenses	9,110	9,426

Accounts receivable from these companies is $0 on September 30, 2012 (September 30, 2011 – $37,500; October 1, 2010 – $35,915).

The Company entered into the following transactions with a director acting as a consultant for the Company:

For the year ended September 30	2012	2011
	$	$
Statement of financial position:		
Exploration and evaluation assets	2,063	3,469

The balance owing this director is $0 on September 30, 2012 (September 30, 2011 – $0; October 1, 2010 – $0).

The Company entered into the following transactions with a company in which a director is a minority shareholder:

For the year ended September 30	2012	2011
	$	$
Statement of financial position:		
Exploration and evaluation assets	9,500	–

The balance owing this company is $0 on September 30, 2012.

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

For the year ended September 30	2012	2011
	$	$
Statement of comprehensive income:		
Salaries and benefits	–	20,438
Office supplies and transportation	–	1,208

Accounts receivable from this company is $2,516 on September 30, 2011 (October 1, 2010 – balance due: $161).

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

For the year ended September 30	2012	2011
	$	$
Statement of financial position:		
Property, plant and equipment	10,685	49,021
Statement of comprehensive income:		
Office maintenance	11,605	–

The balance owing to this supplier is $0 on September 30, 2012 (September 30, 2011 – $0; October 1, 2010 – $0).

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

Commitments

Under the terms of exploration licences granted by the Ministère des Ressources naturelles du Québec and New Brunswick's Ministry of Natural Resources, the Company has committed to pay fees in the amount of $484,552 by 2016. The following minimum payments due during the upcoming fiscal years are as follows:

2013	2014	2015	2016
$	$	$	$
121,138	121,138	121,138	121,138

In addition, the Company must perform work on its properties in Quebec on a yearly basis, for which the minimum costs vary with the age of the licences; the cost is $0.50 per hectare for the first year of the licence and increases annually by $0.50, ultimately reaching $2.50 per hectare as of the fifth year. Based on the work performed as at September 30, 2012, and excluding work that will be performed by 2017 (licence renewal date), the minimum work required amounts to $248,698 in 2015, $935,753 in 2016 and $2,000,041 in 2017.

The adoption of Bill 18 in Quebec suspends some of these statutory work obligations for up to three years while at the same time extending the validity of all the licences for the same period. Pétrolia may, however, still continue its activities despite the suspended obligation.

The Company has signed leases with three companies for the rental of offices and a house until 2016. The balance of the commitments under these leases, excluding escalation clauses, is $1,027,472.

The minimum payments required in the coming years are as follows:

2013	2014	2015	2016
$	$	$	$
289,870	276,600	276,600	184,402

The Company has undertaken to support the renewal of the NSERC-Anticosti Forest Products Industrial Research Chair by contributing $200,000 over a five-year period. A portion of these costs could potentially be assumed by a partner.

The minimum payments due over the next four years are as follows:

2013	2014	2015	2016
$	$	$	$
40,000	40,000	40,000	40,000

Financial instrument disclosure

Risk management policy

The Company's financial assets and liabilities expose it to various risks. The following analysis provides an assessment of the risks as at September 30, 2012, the statement of financial position date:

Credit risk

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

Liquidity risk

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

Market risk

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

Interest rate risk

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

The Company is exposed to interest rate risk on its fixed-rate financial instruments. For the year ended September 30, 2012, an increase or decrease of 1% in the interest rates in effect at that date, with all other variables remaining equal, would have generated a profit or loss of $86,006 (2011 - $39,480).

Fair value

The fair value of investments is determined as follows:

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

Money market fund: Given its short-term maturity, the fair value corresponds to its cost.

As regards the loan, the carrying value approximates the fair value due to the variable interest rate on the debt.

Fair value hierarchy

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

The three levels of the fair value hierarchy are:

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

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

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

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

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

Judgments, estimates and assumptions

For a complete description of judgments, estimates and assumptions, see Note 5 of the Financial Statements.

Future changes in accounting policies

For a complete description of future changes in accounting policies, see Note 3 of the Financial Statements.

Significant accounting policies and transition to IFRS

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

Capital management

For a complete description of the Company's capital management policy, see Note 20 of the Financial Statements.

Other information

a) Supplemental documents

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

b) Regulation 51-102 Section 5.2

Exploration expenses of the fiscal year ended September 30, 2012 are detailed as follows:

	Geology	Geophysical Surveys	Drilling	Analysis	Stimulation	General Expenses	Options	Provisions	Site Maintenance	Total
	$	$	$	$	$	$	$	$	$	$
Anticosti	347,065	64,621	640,243	60,250	–	10,403	38,910	(37,500)	1,080	1,125,072
Gastonguay	320	–	–	–	–	2	77	–	–	399
Gaspésia Marcel-Tremblay Edgar	11,053	21,088	–	–	–	1,393	6,433	–	–	39,967
Gaspé	63,154	42,326	6,333	1,185	560	92,147	6,107	–	84	211,896
Bourque	45,635	4,014	7,391,229	8,190	–	39,879	3,154	–	7,458	7,499,559
Haldimand	391,588	100,020	434,265	3,780	928,157	49,781	62,434	41,992	132,997	2,145,014
Tar Point	11,027	160	–	–	292,625	5,818	14,815	–	4,099	328,544
Dalhousie	2,818	803	1,500	–	–	5,348	1,054	–	–	11,523
	872,660	233,032	8,473,570	73,405	1,221,342	204,771	132,984	4,492	145,718	11,361,974

Deferred exploration expenses for the fiscal year ended September 30, 2011 are detailed as follows:

	Geology	Geophysical Surveys	Drilling	Analysis	Completion	General Expenses	Oil Reservoir	Options	Resource Evaluation	Site Maintenance	Total
	$	$	$	$	$	$	$	$	$	$	$
Anticosti	118,904	14,107	757,476	2,448	105	34,735	–	11,816	97,057	–	1,036,648
Gastonguay	548	–	–	–	–	540	–	77	–	–	1,165
Gaspésia Marcel-Tremblay Edgar	173,755	804	–	–	–	24,115	–	160	–	–	198,834
Gaspé	25,147	52,109	50,142	20	5,316	47,287	–	5,770	–	–	185,791
Bourque	72,563	2,319	9,225	–	–	4,113	–	616	–	–	88,836
Haldimand	608,676	492,850	263,469	595	49,498	113,315	57,337	8,715	–	220,273	1,814,728
Tar Point	29,776	4,237	153,942	–	5,285	4,329	–	12,910	–	46,172	256,651
Dalhousie	4,523	7,463	7,216	40	–	11,283	–	1,261	–	–	31,786
	1,033,892	573,889	1,241,470	3,103	60,204	239,717	57,337	41,325	97,057	266,445	3,614,439

c) Regulation 51-102 Section 5.3

Information on shares issued, warrants and share options as at December 11, 2012:

Common shares: 66,645,750 have been issued and are outstanding.

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

- 400,000 options exercisable at a price of $0.60 per share until February 12, 2013;
- 327,500 options exercisable at a price of $1.25 per share until July 7, 2013;
- 60,000 options exercisable at a price of $0.74 per share until May 21, 2014;
- 270,000 options exercisable at a price of $0.89 per share until February 25, 2015;
- 672,500 options exercisable at a price of $0.50 per share until December 8, 2015;
- 75,000 options exercisable at a price of $1.31 per share until February 25, 2016;
- 500,000 options exercisable at a price of $1.69 per share until May 18, 2016;
- 1,266,000 options exercisable at a price of $1.52 per share until December 4, 2016;
- 75,000 options exercisable at a price of $1.51 per share until February 22, 2017.

Management's responsibility for financial information

Management is responsible for Pétrolia's financial statements, which have been approved by the board of directors on recommendation of the audit committee. The financial statements have been prepared by Management in accordance with International Financial Reporting Standards (IFRS) and audited by the Company's auditors. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

Rimouski, December 11, 2012

On behalf of the Board

André Proulx, President

PÉTROLIA

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