



Leader en exploration pétrolière au Québec



FIRST QUARTER

Unaudited interim financial statements

**For the three months ended
December 31, 2007**





**UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2007**

Declaration concerning the interim financial statements

Management has prepared the interim financial statements of Pétrolia Inc., including the balance sheet as at December 31, 2007, as well as the statements of income, shareholders' equity, deferred exploration expenses and cash flows for the three-month period ending on December 31, 2007. No external auditors' firm has examined or verified these interim financial statements.

BALANCE SHEET



	As at December 31 2007 \$ (unaudited)	As at September 30 2007 \$ (audited)
ASSETS		
Current assets		
Cash	103,933	48,473
Short-term investments	4,061,096	3,000,000
Accounts receivable	306,396	261,683
Prepaid expenses	26,295	117,763
	4,497,720	3,427,919
Equity investments	675,000	565,000
Fixed Assets	119,238	67,147
Oil and Gas properties (Note 3)	1,855,207	1,610,714
Deferred exploration expenses (Note 4)	7,217,283	7,066,177
	14,364,448	12,736,957
LIABILITIES		
Current liabilities		
Accounts payable	199,060	315,976
Long-term debt falling due during the next fiscal year	20,618	11,694
	219,678	327,670
Long-term debt	45,500	20,150
Future taxes	1,574,273	1,607,131
Deposit on shares to be issued (Note 7)	3,000,000	3,000,000
	4,839,451	4,954,951
SHAREHOLDERS' EQUITY		
Capital stock	9,462,805	7,728,400
Contributed surplus – Stock options	606,892	636,968
Contributed surplus – Expired stock options	195,946	195,901
Deficit	(740,646)	(779,263)
	9,524,997	7,782,006
	14,364,448	12,736,957

On behalf of the Board

(signed) André Proulx

Director

(signed) Clément Duchesne

Director



STATEMENT OF INCOME
Three-month period ended December 31

	2007	2006
	\$	\$
	(unaudited)	(unaudited)
REVENUE		
Interest income	39,625	22,338
Gain on disposal of rolling stock	3,724	-
	43,349	22,338
GENERAL AND ADMINISTRATIVE EXPENSES		
Officer salaries	28,750	34,417
Salaries and fringe benefits	32,047	32,420
Insurance	9,340	10,643
Information for shareholders	14,798	3,243
Promotion and entertainment	17,147	23,495
Office supplies	3,765	4,674
Governmental fees	-	10,757
Interests on loan	341	264
Rent	12,597	8,663
Professional fees	10,143	8,245
Telecommunications	5,917	5,981
Depreciation of fixed assets	6,357	5,503
Costs attributable to exploration expenses	(4,401)	(32,387)
Others	10,789	9,069
	147,590	124,987
NET LOSS BEFORE OTHER ITEM AND INCOME TAXES	(104,241)	(102,649)
OTHER ITEM		
Unrealized gain on financial assets held for trading	110,000	-
EARNING (LOSS) BEFORE INCOME TAXES	5,759	(102,649)
FUTURE INCOME TAXES	32,858	-
NET EARNING (NET LOSS)	38,617	(102,649)
BASIC AND DILUTED NET EARNING (LOSS) PER SHARE	0.0013	(0.0036)



STATEMENT OF SHAREHOLDERS' EQUITY

	Capital Stock		Contributed surplus – Stock options	Contributed surplus – Expired stock options	Deficit	Total
	Shares	Amount				
		\$	\$	\$	\$	\$
Audited balance at September 30, 2006	28,548,649	7,379,827	450,057	159,596	(491,118)	7,498,362
Issued during the year						
Warrants exercised	104,500	61,675	-	-	-	61,675
Broker warrants exercised	555,103	292,223	(81,284)	-	-	210,939
Share issuance costs	-	(5,325)	-	-	-	(5,325)
Other activities						
Stock-based compensation	-	-	304,500	-	-	304,500
Expired stock options	-	-	(27,000)	27,000	-	-
Expired broker warrants	-	-	(9,305)	9,305	-	-
Net loss	-	-	-	-	(288,145)	(288,145)
Audited balance at September 30, 2007	29,208,252	7,728,400	636,968	195,901	(779,263)	7,782,006
Issued during period						
Cash	1,750,000	1,750,000	-	-	-	1,750,000
Broker warrants exercised	201,802	106,716	(30,031)	-	-	76,685
Share issuance costs	-	(122,311)	-	-	-	(122,311)
Other activities						
Expired broker warrants	-	-	(45)	45	-	-
Net earnings	-	-	-	-	38,617	38,617
Unaudited balance at December 31, 2007	31,160,054	9,462,805	606,892	195,946	(740,646)	9,524,997



STATEMENT OF DEFERRED EXPLORATION EXPENSES
Three-month period ended December 31

	2007	2006
	\$	\$
	(unaudited)	(unaudited)
EXPLORATION EXPENSES		
Analyses	-	74,006
Drilling	38,701	43,608
Geology	95,636	95,643
Geophysical surveys	12,368	853,862
General exploration expenses	4,401	32,387
INCREASE IN EXPLORATION EXPENSES FOR THE PERIOD		
	151,106	1,099,506
BALANCE, BEGINNING OF PERIOD		
	7,066,177	5,571,563
BALANCE, END OF PERIOD		
	7,217,283	6,671,069



STATEMENT OF CASH FLOWS
Three-month period ended December 31

	2007	2006
	\$	\$
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Net earnings (net loss)	38,617	(102,649)
Items not affecting cash		
Depreciation of fixed assets	6,357	5,503
Future income taxes	(32,858)	-
Gain on disposal of rolling stock	(3,724)	-
Unrealized gain on financial assets held for trading	(110,000)	-
	(101,608)	(97,146)
Net change in non-cash operating working capital items	(30,706)	103,539
	(132,314)	6,393
FINANCING ACTIVITIES		
Acquisition of financing	37,889	-
Repayment of long-term debt	(3,615)	(2,825)
Capital stock issuance	1,826,685	264,419
Share issuance costs	(122,311)	(33,723)
	1,738,648	227,871
INVESTING ACTIVITIES		
Disposal of rolling stock	4,906	
Acquisition of fixed assets	(59,630)	(5,909)
Acquisition of oil and gas properties	(244,493)	-
Increase in deferred exploration expenses	(190,561)	(405,494)
	(489,778)	(411,403)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,116,556	(177,139)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,048,473	1,883,404
CASH AND CASH EQUIVALENTS, END OF PERIOD	4,165,029	1,706,265
CASH AND CASH EQUIVALENTS OF THE COMPANY ARE AS FOLLOWS:		
Cash	103,933	107,696
Bankers' acceptances, bonds, and guaranteed investment certificates	4,061,096	1,598,569
	4,165,029	1,706,265



**NOTES TO INTERIM FINANCIAL STATEMENTS
December 31, 2007**

1) INTERIM FINANCIAL INFORMATION

The financial information as at December 31, 2007, and for the period ending on December 31, 2007, has not been audited. However, in Management's opinion, all the adjustments that are necessary to give a fair presentation of the results for these periods have been included. The adjustments made are of a normal, recurring nature. The interim operating results do not necessarily reflect the expected operating results for the full year.

2) SIGNIFICANT ACCOUNTING POLICES

These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are based on the same accounting policies and methods as those mentioned in note 2 of the company's annual financial statements as at September 30, 2007, with the exception of recent accounting changes. However, they do not include all of the information that must be provided in an annual financial statement. These interim financial statements should therefore be read in parallel with the Company's most recent audited annual financial statements.

Recent accounting changes

The Company has adopted the following new standards from the handbook of the Canadian Institute of Chartered Accountants ("CICA"), which apply to interim financial statements for periods beginning on or after October 1, 2007:

Financial instruments - Disclosures

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. This section as well as section 3863, "Financial Instruments – Presentation", will replace section 3861, "Financial Instruments – Disclosures".

Financial Instruments – Presentation

Section 3863, "Financial Instruments – Presentation". This section establishes standards for presentation of financial instruments and non-financial derivatives.

Capital Disclosures

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 the quantitative data used to calculate capital. The section seeks to determine whether the entity has complied with capital requirements and, if not, the consequences of such non-compliance.

The additional information required by the adoption of these standards is presented in notes 5 and 6.

Pétrolia Inc.



ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS December 31, 2007

2) SIGNIFICANT ACCOUNTING POLICES

Future accounting changes

The CICA modified section 1400, "General Standards of Financial Statement Presentation", which apply for interim periods beginning October 1, 2008, in order to include the criteria for determining and presenting the company's ability to continue as a going concern (going-concern assumption). The adoption of this new chapter will have no significant impact on the financial statements.

3) OIL AND GAS PROPERTIES

	December 31, 2007	September 30, 2007
	\$	\$
	(unaudited)	(audited)
Quebec		
Edgar	10,002	10,002
Gaspésia	188,660	188,660
Gaspé and Gastonguay	1,449,446	1,386,107
Others	185,900	4,746
New Brunswick		
Dalhousie	21,199	21,199
	1,855,207	1,610,714



ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS
December 31, 2007

4) DEFERRED EXPLORATION EXPENSES

	September 30, 2007	Additions	December 31, 2007
	\$	\$	\$
	(audited)		(unaudited)
Quebec			
Edgar	205,465	5,824	211,289
Gaspésia	2,455,102	31,937	2,487,039
Gaspé and Gastonguay	4,422,106	70,970	4,493,076
Saint-Simon	102,707	-	102,707
Others	26,286	26,819	53,105
New Brunswick			
Dalhousie	19,779	15,556	35,335
	<u>7,231,445</u>	<u>151,106</u>	<u>7,382,551</u>
Less :			
Exploration subsidies -			
Edgar	11,512	-	11,512
Gaspésia	53,598	-	53,598
Gaspé and Gastonguay	84,036	-	84,036
Dalhousie	6,922	-	6,922
Others	9,200	-	9,200
	<u>165,268</u>	<u>-</u>	<u>165,268</u>
	<u>7,066,177</u>	<u>151,106</u>	<u>7,217,283</u>
	September 30, 2006	Additions	December 31, 2006
	\$	\$	\$
	(audited)		(unaudited)
Quebec			
Edgar	2,196	158,228	160,424
Gaspésia	1,469,658	875,762	2,345,420
Gaspé and Gastonguay	4,029,616	65,373	4,094,989
Saint-Simon	102,564	143	102,707
	<u>5,604,034</u>	<u>1,099,506</u>	<u>6,703,540</u>
Less :			
Exploration subsidies -			
Gaspésia	32,471	-	32,471
	<u>5,571,563</u>	<u>1,099,506</u>	<u>6,671,069</u>



**ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS
December 31, 2007**

5) FINANCIAL INSTRUMENTS

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 December 31, 2007, the date of the balance sheet.

Credit risk

The financial instruments that could subject the Company to a credit risk are mainly comprised of cash and cash equivalents and accounts receivable. The cash and cash equivalents are held or issued by top-rated financial institutions. Management therefore feels that the risk of non-execution with these instruments is 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. Considering the liquid resources at the Company's disposal, management feels that the liquidity risks to which the Company is exposed are low.

Interest rate risk

The Company's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	No interest and fixed interest rate
Accounts receivable	No interest
Excess of outstanding cheques over bank balance	No interest
Accounts payable and expenses	No interest
Long-term debt	Fixed rates of 2.5% and 4.7%



**ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS
December 31, 2007**

5) FINANCIAL INSTRUMENTS (CONTINUED)

Market risk

Market risk is the risk that the fair value of the investment held for trading would fluctuate due to market price variations. Market risk includes three types of risk: exchange risk, interest rate risk, and other price risk.

6) INFORMATION REGARDING CAPITAL

In its capital management operations, the Company's objectives are to:

- Maintain financial flexibility in order to preserve its capacity to meet its financial commitments, including its potential obligations resulting from additional acquisitions
- Maintain a capital structure allowing the Company to encourage the financing of a its growth strategy
- Optimize the use of its capital in order to offer its shareholders a good return on their investment

The Company defines its capital as follows:

- Equity capital
- Long-term debt, including the short-term portion
- Cash and cash equivalents

The Company's financial strategy is developed and adapted based on market conditions in order to maintain a flexible capital structure in compliance with the aforementioned objectives and to respond to the characteristics of the risks linked to the underlying assets. In order to maintain its capital structure, the Company, being in its early stages, is required to issue new shares.

During the quarter, the Company followed the same strategy as during the corresponding quarter of the prior fiscal year.

The Company is currently meeting all of its financial commitments.



ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS

December 31, 2007

7) POST-BALANCE SHEET EVENTS

Private investment of \$3,000,000

Following the authorization from the Regulatory Authorities given on January 10, 2008, the Company converted the deposit on shares to be issued into a private investment in the amount of \$3,000,000 by issuing 3,000,000 shares to a subscriber at \$1 each and granting this subscriber the right to subscribe to 3,000,000 warrants, each giving the right to subscribe to a common share at the price of \$1 per share over the next 18 months.

However, if exercising any warrant would increase this subscriber's share holdings to more than 15% of the Company's issued shares, the subscriber must obtain prior authorization from the TSX Venture Exchange and the Company's disinterested shareholders.

Acquisition of permits

On January 29, 2008, the Company acquired all of Hydro Québec's rights on the 35 permits for oil and gas exploration on Anticosti Island, with a total area of 6,381 km², in exchange for priority oil production royalties.