

MANAGEMENT  
DISCUSSION &  
ANALYSIS  
2008

# Quebec's leader in oil and gas exploration

Pétrolia

A large, abstract graphic composed of several overlapping, rounded shapes in a vibrant orange color. The shapes are positioned in the lower half of the page, with one large shape on the left and another larger one on the right, both partially overlapping a white, teardrop-shaped area at the bottom left.

# Management discussion & analysis for the fiscal year ended September 30, 2008

This management discussion and analysis is an addition and supplement to the audited financial statements for the fiscal years ended September 30, 2008 and 2007, and should be read in conjunction with these statements, which were prepared in accordance with Canadian generally accepted accounting principles (GAAP). It presents the view of management on current Company activities and the annual financial results, as well as a preview of the activities during the coming fiscal year.

## Forward-looking statements

This report contains statements that should be considered forward-looking statements. These forward-looking statements are subject to risks, uncertainties, and other factors that could influence the results, performance, and achievements of the Company in such a way that they may differ substantially from the results, performance, and achievements that such forward-looking statements could suggest.

## Date

This management discussion and analysis for the fiscal year ended September 30, 2008, is dated December 1, 2008.

## Nature of activities

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

## Strategy and outlook

As at the date of this report, the Company is operating no wells. As the properties are still in the exploration stage, its only income comes from interest and work management. As such, its financing comes from the issuance of shares of its capital stock.

During the fiscal year, the Company performed \$5,722,280 worth of exploration work, including \$2,714,219 taken on by partners. For fiscal year 2008, it incurred a loss of \$774,527 (\$0.022 per share), compared with a loss of \$288,145 for fiscal year 2007 (\$0.010 per share).

# Summary table of work

## Haldimand: 900 hectares

### Summary

Permits acquired in 2005

Partnership with Junex (45%) and Gastem (10%)

Oil and gas potential of the area demonstrated

Most explored area in the Gaspé region: 7 wells since 1999

Acquisition of seven seismic profiles in 2005 with a total length of 34 km

Discovery of light crude in the Pétrolia Haldimand No. 1 well in 2005

Characterization of the organic matter and petrography of the Pétrolia Haldimand No. 1 well in 2007

Signature of a joint operating agreement for development of the Haldimand oil and gas project in 2008

3D seismic campaign over an area of 13 km<sup>2</sup> in 2008

Recovery of a pressure recorder installed in the well in 2006 and collection of petroleum samples under reservoir conditions

### Proposed work

Continuing analyses and tests in the Pétrolia Haldimand No. 1 well

Extended production test to confirm the production capacity of the Pétrolia Haldimand No. 1 well

More detailed geologic studies of the various formations

Drilling of a second well to target the producing zones identified in the previous well

### Cumulative cost of work

---

\$2,454,790

---

## Haldimand Corridor

### Summary

North and south extensions of the Haldimand project

A reassessment of the available data and reprocessing of some of the old seismic lines was carried out

Soil-geochemistry survey conducted in 2008 (900 samples)

Acquisition of six seismic lines with a total length of 61 km, including a subsea portion

High-resolution airborne magnetic survey to extend the government surveys to the East

### Proposed work

Analyses of organic matter from drill and field samples

Planning of a drilling campaign

### Cumulative cost of work

---

\$203,926

---

**Bourque: 74,267 hectares**

<b>Summary</b>	Exploration of Devonian reefs Recognized petroleum potential Acquisition and interpretation of old seismic data, now in the public domain 3D seismic acquisition in 2008 Study of the maturation of organic matter in surface samples collected in 2007
<b>Proposed work</b>	Interpretation and evaluation of the results of the 3D seismic survey Planning of a drilling campaign
<b>Cumulative cost of work</b>	<u>\$3,153,270</u>

**Anticosti: 638,106 hectares**

<b>Summary</b>	Permits acquired in 2007 Partnership with Corridor Resources Inc. Interpretation of seismic lines and available drilling data Soil-geochemistry survey carried out in 2008 over the entire island (1,700 samples)
<b>Proposed work</b>	Evaluation and compilation of the latest field work Study aimed at the characterization of the organic matter in three wells from the eastern portion of the island Planning of a drilling campaign
<b>Cumulative cost of work</b>	<u>\$1,137,368</u>

**Gaspésia, Edgar, and Marcel-Tremblay: 221,395 hectares**

<b>Summary</b>	Permits acquired in 2002, 2006, and 2007, 100% owned by Pétrolia A thermal-maturation study carried out in 2003 shows the oil and gas potential Acquisition of a 32 km-long 2D seismic line in 2005 Acquisition of four 2D seismic lines with a total length of 126 km in 2006 Soil-geochemistry survey in 2008 (334 samples) along the seismic lines of Pétrolia and the Ministry of Natural Resources and Wildlife, and near salt marshes Acquisition of four seismic lines with a total length of 52 km in 2008
<b>Proposed work</b>	Analysis of existing seismic, magnetic, gravimetric, and geochemical data Planning of a drilling campaign
<b>Cumulative cost of work</b>	<u>\$3,385,227</u>

**Dalhousie: 68,163 hectares**

<b>Summary</b>	Permits acquired in 2006 and 100% owned by Pétrolia Oil and gas potential recognized in 2005 by the Geological Survey of Canada Evaluation in 2008 of the petrophysical properties of the Ordovician volcanic rocks, which constitute one of the potential objectives in this region Acquisition of a gravimetric survey in 2008 Three-dimensional (3D) modelling of the potential fields shows the extent of the target structure Acquisition of 2D reconnaissance seismic profiles with a total length of 39 km in 2008. The potential targets will be the subject of more detailed seismic surveys and possible drilling
<b>Proposed work</b>	Regional soil-geochemistry study Planning of a drilling campaign
<b>Cumulative cost of work</b>	<u>\$524,247</u>

**Gastonguay: 258,993 hectares**

<b>Summary</b>	Unexplored area Only one significant well Geologic characteristics similar to those of the Gaspésia and Bourque areas
<b>Proposed work</b>	Reconnaissance and data-compilation work necessary to evaluate the property. If the results are encouraging, Pétrolia will launch a regional seismic program
<b>Cumulative cost of work</b>	<u>\$39,808</u>

# Results of exploration work during 2008



Haldimand project

## Haldimand project

The Haldimand discovery was made by Pétrolia in 2006. Under their development agreement, signed in early May 2008, Pétrolia and its partners, Junex and Gastem, agreed to respective shares of 45%, 45%, and 10% in the Pétrolia Haldimand No. 1 well and the exploration rights for petroleum and natural gas within an area of 9 km<sup>2</sup>, centred on the discovery well.

Pétrolia Haldimand No. 1 was drilled on a single seismic profile; the extension of the deposit on either side of this profile is therefore unknown. The well's productive sands were cased, and the casing was perforated over only 22 of the 150 metres of the producing interval. It is therefore possible that other zones, if they were perforated, could contribute to an increase in production from the discovery well.

The geometry of the deposit, the reservoir characteristics, and the potential flow from the discovery well are unknown. In order to assess the deposit's reserves, the partners must define its boundaries as well as the physical characteristics of the reservoir. Their short-term goal is to put the Haldimand field into production on a realistic schedule and, above all, to have a recognized independent firm provide a certified estimate of the deposit's minimum reserves. With this document in hand, the value of the Haldimand discovery will be recorded on Pétrolia's books and will become an asset for its shareholders.

In order to accelerate the exploration work, by signing the agreement, the partners agreed to allocate a minimum of \$5M to these tasks during the first year. Accordingly, a new exploration program was quickly set up. This program comprises four main activities, three of which have already been completed or are being carried out:

1. A down-hole recorder, run in 2006 in the Pétrolia Haldimand No. 1 well to evaluate the behaviour of the producing zones, was recovered, and a sample was collected from the bottom of the well under reservoir conditions. Study of the results will establish the characteristics of the Haldimand oil and provide additional information on the physical properties of the reservoir. Among other matters, it will be possible to set a production rate for the well and for any future wells, so as not to harm the reservoir and have a negative impact on the long-term recovery rate.
2. A three-dimensional seismic survey (3D seismic) over a total area of 13 km<sup>2</sup>, centred on the Pétrolia Haldimand No. 1 well, was conducted in early fall 2008. The results should provide an excellent three-dimensional image of the Haldimand deposit and help to maximize the chances of success when selecting the next targets for drilling. This image will be an essential tool during the certification of reserves.

3. A surface geochemical survey, consisting of measurements of the concentrations and composition of the hydrocarbons adsorbed by clays in the soils, was carried out on the same grid as the 3D seismic survey. About 215 samples, spaced 200 m apart, were collected over the entire grid. These samples will assist in the selection of the next sites for drilling.

4. The partners will decide on the site for the confirmation hole, based on the results obtained during the previous stages. Drilling should begin in early 2009.

The results of this work should enable Pétrolia and its partners to establish a development plan to put the deposit into production in a gradual and efficient manner, for the benefit of their respective shareholders.

## Haldimand Corridor project

The Haldimand Corridor project was conceived during 2008. It involves the areas located to the northwest and southeast of the Haldimand project, in which Pétrolia holds a 100% interest. These areas present geological characteristics resembling those observed in the Haldimand field. During the current fiscal year, Pétrolia has invested \$1M in exploration work on this project to identify targets to be drilled in 2009.

The Haldimand discovery lies in a narrow geological corridor that extends over a distance of about 50 km on the south shore of Gaspé Bay. This corridor is a complex zone containing several faulted anticlinal structures. The prospective areas are mostly located onshore, but they probably extend for some distance beneath Gaspé Bay.

Pétrolia has identified two anticlinal structures in this corridor that resemble those at Haldimand. The first is the Tar Point anticline, about 12 km southeast of Gaspé, where oil seeps have been known since the mid-19th century. Moreover, the name Tar Point alone is sufficiently suggestive. The seeps in the cliff at Tar Point, which are well known to geologists, constitute proof that an oil-producing system is operating in this part of the Gaspé region. The Tar Point anticline, whose reservoir zone is probably not as deep as the one that is producing at Haldimand, represents a potential drilling target. The second structure, seen in the coastal cliffs at Fort-Prével, has been confirmed by the reprocessing of old seismic data. However, the reservoir zone is deeper than at Haldimand or Tar Point. The work already completed and the activities in progress will be used to confirm the theories about these two structures.

The current purpose of evaluating the Haldimand Corridor is to discover other structures like Haldimand. However, traps of other kinds may be present and prove to be just as effective for containing hydrocarbons.



Drilling of the Pétrolia Haldimand No. 1 well



Tar Point Gaspé Sandstones, Haldimand Corridor



Fissures filled with oil in Gaspé Sandstones, Tar Point, Haldimand Corridor



Bourque project



Seismic survey, Gaspésia

Pétrolia views the Haldimand Corridor as a priority project, in which it has invested much effort over the course of the last fiscal year. In order for the company to be in a position to drill in 2009, the following work has been carried out or is now in progress:

1. A 2D seismic survey comprising six profiles for a total of 83 km, ten of which are the marine extensions of land-based profiles. Two of these profiles are intended to confirm the structures already selected, while the other four are aimed at finding new targets. When combined with the knowledge acquired from the 3D seismic survey on the Haldimand project and the reinterpretation of the reprocessed earlier seismic lines, this survey will enable the shape of the structures in the southeast section of the corridor to be defined.
2. A 900-sample soil-geochemistry survey that covers the entire Haldimand Corridor. This is an adsorbed-gas study on the clay fraction of the soils, to detect the presence of anomalous concentrations of hydrocarbons overlying reservoirs. The results are expected in January 2009.
3. Pétrolia has also performed analyses of the organic matter in drill cuttings and field samples. The results of this study are also expected in early 2009. They will assist in understanding the geologic conditions at the time the hydrocarbons were emplaced.
4. Lastly, Pétrolia conducted an airborne magnetic survey covering the eastern portion of Gaspé bay to supplement the public survey carried out by the Ministry of Natural Resources and Wildlife. This survey will enable the broad geological structures seen on land to be traced beneath the bay. The method is complementary to seismic surveying.

All this work will serve to confirm the potential of the structures that we have targeted and to define the most promising areas for follow-up exploration.

### **Bourque project**

During the Devonian, the present-day Gaspé region was a sea bottom located close to the equator, where there were environments favourable for the growth of reef complexes. The Devonian also saw the emplacement of the reef complexes of the Western Canadian Sedimentary Basin. In 1947, the discovery of the giant Leduc oilfield, whose production has since exceeded 100 million barrels of petroleum, was a turning point for oil exploration in Alberta. Since that time, a number of major deposits have been discovered in these ancient reefs.

The Bourque project is located in the northwest portion of the Gaspé property, 30 km east of Murdochville and 70 km west of the town of Gaspé. This property consists of four permits, 100% owned by Pétrolia.

On August 5, 2008, Pétrolia signed a \$20 million farmout agreement with an oil company. This sum will be invested in exploration and development work for the Bourque project. The terms of the agreement were set out in the press release issued by Pétrolia on August 5, 2008.

The first phase of the work, a three-dimensional (3D) seismic survey over an area of 60 km<sup>2</sup> was carried out during the summer of 2008. The survey will provide a three-dimensional image of this region that will delimit the limestone reefs in the west point formation and target potential hydrocarbon traps. The data acquired are being processed, and the preliminary results received to date are of very good quality. The interpretation of these new data will be performed in early 2009. The drilling of an approximately 3,000-metres well, required for the evaluation of one of the targets, is scheduled for 2009.

This agreement is of critical importance for Pétrolia, not only in respect of the amounts invested but above all because it enables the exploration of a type of trap that has major potential for petroleum. The discovery of hydrocarbons in a Devonian reef would open the door to petroleum exploration in new areas of the Gaspé region. By joining forces with a partner to explore this property, Pétrolia aims to share the risks associated with this type of investment, while at the same time benefiting from its partners' expertise.

### **Anticosti property**

During the current fiscal year, Pétrolia has obtained the mineral rights over an area of 6,381 km<sup>2</sup> on Anticosti island. Under this agreement, it will substitute for Hydro-Québec in the agreement that bound it to Corridor Resources Inc. The Company will now have interests ranging from 25% to 50% in 35 permits on the island. As a result of this acquisition, it now has interests in 18% of all the land-based permits issued in Quebec.

Anticosti island is part of the siluro-ordovician carbonate platform that occupies the northern portion of the Gulf of St. Lawrence, off the coast of the Gaspé Peninsula. This platform extends eastward as far as Newfoundland. Westward, it meets the St. Lawrence Lowlands platform, which extends as far as Texas.

Over the last fifty years, several world-class discoveries have been made in geological settings similar to that of Anticosti island. Among the biggest, the Albion and Scipio fields must be mentioned. These older fields have produced more than 200 million barrels of oil equivalent. More recently, Talisman Energy Inc. discovered significant quantities of natural gas in similar rock formations in New England. Closer to us, Talisman is actively exploring for gas deposits in the St. Lawrence Lowlands.



Anticosti project



Anticline in the Romaine Formation, Mingan Islands, Anticosti platform



Gaspésia, Edgar, and Marcel-Tremblay properties



Porous dolostones in Sayabec Formation, Gaspésia property

A number of oil companies have explored Anticosti island over the last 50 years. In total, 17 holes have been drilled on the island. About 850 km of modern seismic data has been acquired since the end of the 1990s, and eight wells have been drilled on them: five by shell and three by Hydro-Québec in 2003.

The feature that makes Anticosti island particularly attractive for oil exploration is that its petroleum can be found at shallow depths. In fact, if we divide the island in two along its length, the targets in the northern half of the island are shallow, and the area is favourable for the discovery of petroleum. The targets in the southern half of the island are much deeper, and the area is above all conducive to the discovery of natural gas and condensates.

Pétrolia has identified several targets that are ready for drilling, with depths ranging from 900 m to 1,500 m. The most recent wells have revealed the existence of hydrothermal-type carbonate reservoirs with significant reservoir characteristics. Although only formation water has been found in them so far, the data obtained from these reservoirs suggest that if petroleum had been produced instead of water, the output would have been in excess of 1,000 barrels per day. These are reservoirs with exceptional characteristics, by far the best encountered in Quebec up to this time.

The analysis of modern seismic data has enabled Pétrolia to identify significant petroleum objectives and numerous drilling targets. In August 2008, in order to select the best, it carried out a survey that combined a microbiological technique with a geochemical technique. It involved measuring the concentrations and composition of the hydrocarbons adsorbed on soil clays and measuring the relative concentration of certain species of bacteria that metabolize hydrocarbons. About 1,700 samples were collected from selected areas of the island. The analytical results will assist in the definition of the targets that offer the best potential for discoveries. A drilling campaign that was to follow this survey had to be postponed until 2009, owing to technical problems. Pétrolia's strategy with regard to the island remains to drill several wells as soon as possible.

### **Gaspésia, Edgar, and Marcel-Tremblay properties**

The contiguous Gaspésia, Edgar, and Marcel-Tremblay properties cover a large area west of the centre of the Gaspé region, between the towns of Amqui and Murdochville. Black clays rich in organic matter have been observed there: this type of rock, called a source rock, is an essential element in the formation of hydrocarbons. Thermal-maturation studies have shown that a large portion of these properties is favourable for the preservation of natural gas and that a small portion is favourable for the preservation of petroleum.

The geologic setting of these properties is encouraging for the presence of good reservoir rocks. A few kilometres to the east and west of Pétrolia's permits, dolomites and porous sandstones are seen: these constitute the key elements for exploration in this part of the Gaspé region. These rocks represent excellent potential reservoirs that can accumulate significant quantities of natural gas if they are found in structures buried at great depths. The characteristics of this type of reservoir also suggest the possibility of wells with significant production capacities.

Over the last year, Pétrolia has devoted a lot of efforts to the interpretation of the available seismic data on these properties, in particular the 126 km of profiles acquired in December 2006. The Company's geologists have also investigated the reservoir potential of the geologic units in outcrop. As a result of this work, potential structures have been identified and a detailed 53 km 2D seismic survey was acquired during the summer of 2008. The results of the survey are expected in early 2009.

In order to assign exploration priority to the structures most likely to contain hydrocarbons, Pétrolia also carried out a geochemical survey using the adsorbed-gas technique. A total of 334 samples were collected along the paths of these new seismic profiles, on the old seismic lines, and over a few salt marshes identified in the region. This method may prove to be a valuable tool for delimiting the area of the deposits and determining whether gas or petroleum is involved. Integration of the seismic and geochemical results will enable a better definition of targets for drilling.

Since the nearest market is located in northern New Brunswick about 80 kilometres from our properties, and since at this time, there is no gas transport infrastructure to receive the gas, Pétrolia is particularly interested in giant traps at deep levels likely to contain large quantities of natural gas that could justify such infrastructures.

The Company is actively seeking one or more partners to share in the exploration of this vast area.



Geochemical soil sample collection, Gaspésia



Dalhousie properties



Gastonguay property

### **Dalhousie properties**

The Dalhousie properties, located in northern New Brunswick, have potential for gas. They cover an extensive anticlinal structure called the Popelogan Anticline. During the previous fiscal year, Pétrolia established the presence of a system of open fractures in the volcanic rocks occupying the core of the anticlinal structure. Work is under way to determine the nature of these fractures and to find out whether they previously contained natural gas. This system of open fractures could constitute a reservoir with exceptional production characteristics if it is present at depth in a large volume of rock.

Pétrolia is exploring the extension of this giant structure towards the north. Within the borders of its permits, little is known about the structure's surface expression, and it is subject to interpretation. During the current fiscal year, Pétrolia commissioned a study of the gravimetric data and of the available magnetic data. The results of this study have enabled the construction of a model that confirms the extension of the anticlinal structure at depth. The model indicates that this high zone covers a large area southeast of the town of Dalhousie. It also shows that the reservoir zone is buried deeply enough for the fractured rocks to act as a reservoir for natural gas. Finally, the model enabled Pétrolia to choose the best location for a new 2D seismic campaign covering 39 km, conducted in November 2008.

In addition, Pétrolia has acquired new permits and expanded its exploration area by 235 km<sup>2</sup> so as to cover all of the area offering a promising potential for gas.

It is interesting to note that a thermal power plant is located in the vicinity of Pétrolia's permits. Before 2006, the 300 MW Dalhousie power station operated on orimulsion, a mixture of bitumen and water. Venezuela stopped producing it in 2006, and since that time, the plant has been using heavy oil. Pétrolia estimates that it would take 23 bcf (billion cubic feet) of natural gas per year to completely replace the petroleum used by this power plant. For both Pétrolia and northern New Brunswick, a natural-gas discovery would obviously have considerable economic consequences.

### **Gastonguay property**

The Gastonguay property covers an area of 2,590 km<sup>2</sup> in the centre of the Gaspé region. Very little exploration work has so far been carried out there. One old well, 1,800 m deep, partially intersected a major anticline on the south of the property but did not reach the targeted silurian and ordoevician rocks.

Although the bedrock geology of this property is virtually unknown, we know that it has geologic features similar to those seen on the Bourque project, about 40 km to the east, and to those on the Gaspésia property to the west. The results of a magnetic inversion performed in 2008 indicate that the pre-Silurian basement in the northern part of the property is relatively shallow. This may represent an uplifted tectonic block on which Siluro-Devonian reefs could have developed and become buried at attractive depths.

Reconnaissance and data-compilation work will be necessary before the property can be evaluated. If the results are encouraging, Pétrolia will go ahead with a regional seismic program.

# Management analysis of the financial position

## Effectiveness of disclosure procedures and controls

The President and Chief Executive Officer and the Vice President of Finance have designed or supervised the design of disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them, particularly during the period in which the annual filings are being prepared. They have also designed or supervised the design of internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

## Operating results

For fiscal year 2008, the Company's income consisted of interest income of \$224,714 on short-term investments, compared with interest income of \$52,924 for fiscal year 2007, project management income of \$26,736, and a gain on the disposal of fixed assets. The increase in interest income is explained by the issuance of shares of its capital stock, which generated \$10,777,984 in additional cash flow compared with 2007.

The unrealized gain increased by \$300,000 from 2007. However, after the end of the fiscal year, the investment lost nearly one-third of its value following the collapse of the stock markets.

## Selected annual information

	2008	2007	2006
	\$	\$	\$
Revenue	255,174	52,924	56,353
Net loss	(774,527)	(288,145)	(477,925)
Basic and diluted net loss per share	(0.022)	0.010	(0.0190)
Total assets	26,831,615	12,736,957	9,426,687
Long-term financial liabilities	—	20,150	31,845
Dividend per share	N/A	N/A	N/A

## Analysis of general and administrative expenses

The main increase in general and administrative expenses came from stock-based compensation. During the fiscal year, the Board of Directors voted on two stock option allocations, resulting in 1,350,000 options granted in 2008, compared with 1,125,000 options in 2007. According to the assumptions in Note 12 of the annual financial statements, the compensation expenses charged against earnings totalled \$668,775 for 2008 and \$148,770 for 2007, an increase of \$520,005 over the previous fiscal year.

## Liquid assets and financing source

As at September 30, 2008, the Company had cash and equivalents of \$11,275,057, with positive working capital of \$11,120,066.

During the fiscal year, the Company issued 11,705,967 shares in exchange for \$14,861,684. Issuance expenses for private investments resulted in a disbursement of \$795,973. Management believes that the current cash position is sufficient to meet its current commitments. Traditionally, the Company has been able to rely on its ability to raise capital through public offerings and negotiated private investments.

The Company currently operates no oil wells. Because the Company is in the exploration stage, its only revenue for fiscal year 2008 came from interest income and project management fees. It is therefore funded through the issuance of shares of its capital stock. The "commitments" section discloses the Company's contractual commitments in order to keep its research permits active. The Company had no flow-through financing during the fiscal year ended September 30, 2008.

**Summary of quarterly results**

	2008			2007				2006
	September	June	March	December	September	June	March	December
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	129,439	44,908	37,479	43,349	17,008	1,366	12,212	22,338
Net earnings (net losses)	(2,193,065)	1,487,502	(107,581)	38,617	(192,054)	(390,336)	315,253	(21,008)
Net earnings (net losses) per share								
Basic	(0.0623)	0.0448	(0.0035)	0.0013	(0.0066)	(0.0134)	0.0109	(0.0007)
Diluted	(0.0623)	0.0399	(0.0035)	0.001	(0.0066)	(0.0134)	0.0095	(0.0007)

Revenues consist primarily of earned interest for each of the quarters. General and administrative expenses are relatively stable from one quarter to the next. The main changes in quarterly losses or earnings are explained as follows:

2007 – March:

Gain of \$400,000 resulting from the recording of an investment at fair value;

2007 – June:

Recorded an unrealized loss on a long-term investment of \$150,000 and stock-based compensation of \$148,770;

2007 – December:

Recorded an unrealized gain on a long-term investment of \$110,000;

2008 – June:

Recorded an unrealized gain on a long-term investment of \$1,590,000;

2008 – September:

Recorded an unrealized loss on a long-term investment of \$1,380,000 and stock-based compensation of \$461,325.

### Related-party transactions

Transactions were made with two companies (Géominex Inc. and Gestion Lestros Inc.) led by one of Pétrolia's directors, who also holds a minority interest.

	<b>2008</b>	2007
	\$	\$
Salaries and fringe benefits	(16,445)	—
Travel	(1,069)	—
Maintenance and office furniture	(25,319)	—
Deferred exploration expenses	676,529	340,246
Promotion and entertainment	(1,045)	—
Telecommunications	(12,970)	—
Other expenses	(76,408)	6,413

The accounts receivable due from these companies as at September 30, 2008, was \$54,696 (2007, balance due – \$68,075).

Transactions were made with a director who works as a consultant for the Company under the corporate name SEISServ:

	<b>2008</b>	2007
	\$	\$
Deferred exploration expenses	66,314	62,969

The balance due to this director as at September 30, 2008, was \$18,492 (2007 – \$5,769).

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

	<b>2008</b>	2007
	\$	\$
Office supplies	3,600	4,680
Salaries and fringe benefits	245,156	191,823
Telecommunications	6,505	4,082

The balance due to this company as at September 30, 2008, was \$63,039 (2007 – \$55,159).

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

#### **Fourth quarter**

The fourth quarter closed with a loss of \$2,193,065 (\$0.0623 per share). Revenue for the quarter totalled \$129,439, and general and administrative expenses were \$590,585. The increased general expenses were caused by stock-based compensation recorded in the amount of \$461,325.

#### **Accounting policies**

Readers are asked to refer to Note 3 in the annual financial statements of September 30, 2008, for a detailed description of the changes to accounting policies.

#### **New accounting standards**

In October 2007, the company adopted the new recommendations of Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation", which replace Section 3861 "Financial Instruments – Disclosure and Presentation" of the CICA Handbook. These two new sections put more emphasis on the information to be disclosed regarding the nature and magnitude of the risks involved with financial instruments and how the entity manages these risks.

In October 2007, the Company also adopted the new recommendations of Section 1535 "Capital Disclosures". The new section establishes standards for disclosing information about a Company's capital and how it is managed.

#### **Future accounting standards**

The CICA released these new sections, which will apply to the Company's interim and annual financial statements beginning October 1, 2008:

##### **General standards of financial statement presentation**

In June 2007, the CICA modified Section 1400 "General Standards of Financial Statement Presentation" in order to require management to assess the Company's ability to continue its operations for, but not limited to, a minimum period of twelve months from the closing date of the fiscal period. These new requirements apply to fiscal years that started on or after January 1, 2008. Accordingly, the Company will apply them beginning October 1, 2008.

The new requirements cover only the information to be disclosed and will have no impact on the Company's financial results.

##### **Goodwill and intangible assets**

In February 2008, the CICA issued the new Section 3064, "Goodwill and Intangible Assets", which supersedes Section 3062, "Goodwill and Other Intangible Assets". The release of this new section led to the elimination of Section 3450, "Research and Development Costs" as well as the

resulting modifications to certain recommendations of the CICA Handbook. The new section establishes standards for companies in the recognition, measurement, presentation, and disclosure of goodwill and intangible assets. This new section applies to fiscal years opened on or after October 1, 2008. Accordingly, the Company will apply them from this date. The Company's management currently assesses the impact of applying this new section on the financial statements but feels that it is unlikely to have any impact on them.

##### **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. The transition to the IFRS will apply to interim and financial statements for fiscal years opened on or after January 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.

#### **Financial instruments**

##### **Risk management policies**

Risks are managed as part of a management framework that takes into account the nature of the activities as well as the level of risk that the Company considers reasonable to assume by considering the desired risk/return ratio and shareholder expectations.

##### **Credit risk**

The financial instruments that potentially subject the Company to credit risk consist primarily of cash and equivalents and receivables. The company's cash and equivalents are held with or issued by first-class financial institutions. The receivables are primarily sums due from governments and 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. Considering the liquid resources at the Company's disposal, management feels that the liquidity risks to which the Company is exposed are low.

### 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.

### Risks and uncertainties

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

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

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

### Information on shares issued, warrants, and stock options as at December 1, 2008

**Common shares:** 40,914,219 shares have been issued and are outstanding.

**Warrants:** Each warrant gives its holder the right to purchase a common share in the Company at the indicated exercise price until the expiration date:

1,750,000 shares at \$1.00 per share until April 26, 2009;

3,000,000 shares at \$1.00 per share until July 10, 2009;

3,756,665 shares at \$1.50 per share until December 6, 2009.

**Stock options outstanding:** Stock options have been granted to the Company's directors, members of senior management, employees, and service providers on an ongoing basis 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;

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;

600,000 options exercisable at a price of \$1.25 per share until July 7, 2013.

**Additional information**


- a) Certain supplemental documents, including prior interim management reports and press releases, are available online at [www.sedar.com](http://www.sedar.com) in the documents section or on Pétrolia's Web site at [www.petroliagaz.com](http://www.petroliagaz.com).
- b) Rule 51-102A-Section 5.3  
Details of the deferred exploration expenses for the fiscal year ended September 30, 2008 and 2007, are presented in the statement of deferred exploration expenses and in Note 10 of the Company's annual financial statements.

**Management's responsibility for financial information**

Pétrolia's financial statements are the responsibility of Management and have been approved by the Board of Directors under the recommendation of the auditing committee. The financial statements were prepared by Management in accordance with Canadian generally accepted accounting principles and were approved by the Company's auditors. The financial statements include some amounts that are based on the use of estimates and judgments. Management has reasonably determined these amounts to ensure that the financial statements are presented fairly in all material respects.

Rimouski, December 1, 2008

On behalf of the Board of Directors

  
\_\_\_\_\_  
André Proulx, president of the Company