



Leader en exploration pétrolière au Québec



FIRST QUARTER

**Unaudited interim financial statements
as at December 31, 2010**



UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2010

Declaration Concerning the Interim Financial Statements

Management has prepared the interim financial statements of Pétrolia Inc., including the balance sheet as at December 31, 2010, as well as the statements of income and comprehensive income, shareholders' equity, deferred exploration expenses, and cash flows for the three-month period ended on December 31, 2010. No external auditor's firm examined or verified these interim financial statements.



BALANCE SHEET

	As at December 31, 2010 \$ (unaudited)	As at September 30, 2010 \$ (audited)
ASSETS		
Current assets		
Cash and cash equivalents	7,752,115	1,949,055
Receivables	3,124,044	2,920,900
Advance on exploration work	57,408	70,372
Investments cashable during the next fiscal year	754,331	754,331
	11,687,898	5,694,658
Fixed assets	202,461	213,159
Oil and gas properties (Note 3)	3,050,099	3,852,629
Deferred exploration expenses (Note 4)	21,800,561	21,234,411
	36,741,019	30,994,857
LIABILITIES		
Current liabilities		
Payables and accrued expenses	1,594,854	822,339
Loan	2,243,310	2,243,310
	3,838,164	3,065,649
Future taxes	2,737,029	1,323,583
	6,575,193	4,389,232
SHAREHOLDERS' EQUITY		
Capital stock (Note 5)	28,288,874	28,288,874
Contributed surplus ó Stock options	1,383,415	1,300,615
Contributed surplus ó Expired stock options	783,366	783,366
Deficit	(289,829)	(3,767,230)
	30,165,826	26,605,625
	36,741,019	30,994,857

On behalf of the Board

(signed) André Proulx
Director

(signed) Vincent Causse
Director



STATEMENT OF INCOME AND COMPREHENSIVE INCOME (unaudited)
Three-month period ended December 31

	2010	2009
	\$	\$
REVENUE		
Project income	-	1,781
Interest income	6,522	4,843
	6,522	6,624
OPERATING EXPENSES		
Administrative expenses (Appendix A)	502,132	303,408
General expenses (Appendix B)	-	-
	502,132	303,408
LOSS BEFORE OTHER ITEMS AND INCOME TAXES	(495,610)	(296,784)
OTHER ITEMS		
Gain on disposal of interest in certain licenses (net of tax)	3,856,703	-
Gain on disposal of shares	-	395,163
Unrealized loss on financial assets held for trading	-	(458,500)
EARNINGS (LOSS) BEFORE INCOME TAXES	3,361,093	(360,121)
Future income taxes	116,308	31,145
NET EARNINGS (NET LOSS) AND COMPREHENSIVE INCOME	3,477,401	(391,266)
BASIC NET EARNINGS (NET LOSS) PER SHARE	0.0695	(0.0094)
DILUTED NET EARNINGS (NET LOSS) PER SHARE	0.0571	(0.0094)



STATEMENT OF SHAREHOLDERS' EQUITY

	<u>Capital stock</u>		<u>Contributed surplus</u>		<u>Deficit</u>	<u>Total</u>
	<u>Number</u>	<u>\$</u>	<u>Stock options</u>	<u>Expired stock options</u>		
			<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Audited balance as at September 30, 2009	40,914,219	21,674,783	1,957,120	225,721	(2,408,701)	21,448,923
Issued during the period						
Cash	7,960,568	7,129,907	-	-	-	7,129,907
Stock options exercised	25,000	16,750	(6,750)	-	-	10,000
Share issuance costs	-	(1,419,273)	-	-	-	(1,419,273)
Other activities						
Expired stock options	-	-	(394,970)	394,970	-	-
Net loss	-	-	-	-	(391,266)	(391,266)
Unaudited balance as at December 31, 2009	48,899,787	27,402,167	1,555,400	620,691	(2,799,967)	26,778,291
Audited balance as at September 30, 2010	50,067,287	28,288,874	1,300,615	783,366	(3,767,230)	26,605,625
Other activities						
Stock-based compensation	-	-	82,800	-	-	82,800
Net earnings	-	-	-	-	3,477,401	3,477,401
Unaudited balance as at December 31, 2010	50,067,287	28,288,874	1,383,415	783,366	(289,829)	30,165,826

Pétrolia Inc.
(Oil and gas exploration company)



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

	2010	2009
	\$	\$
EXPLORATION EXPENSES		
Analyses	140	-
Evaluation of oil reserves	50,278	-
Drilling	322,921	4,341,625
General exploration expenses	79,794	8,690
Geology	151,046	104,613
Geophysical surveys	48,194	96,487
Completion	53,350	-
Stock option-based compensation	34,200	-
	739,923	4,551,415
DEDUCTIONS		
Income from evaluation of oil reserves	44,221	10,030
Exploration subsidies	129,552	650,615
Partner contributions	-	178,061
	173,773	838,706
INCREASE IN EXPLORATION EXPENSES FOR THE PERIOD	566,150	3,712,709
BALANCE, BEGINNING OF PERIOD	21,234,411	13,346,303
BALANCE, END OF PERIOD	21,800,561	17,059,012

Pétrolia Inc.
(Oil and gas exploration company)



STATEMENT OF CASH FLOWS (unaudited)
Three-month period ending December 31

	2010	2009
	\$	\$
OPERATING ACTIVITIES		
Net earnings (net loss)	3,477,401	(391,266)
Items not affecting cash		
Depreciation of fixed assets	14,845	13,063
Stock-based compensation	48,600	-
Future income taxes	(116,308)	31,145
Gain on disposal of interest in certain licenses (net of taxes)	(3,856,703)	-
Gain on disposal of shares	-	(395,163)
Unrealized loss on financial assets held for trading	-	458,500
	(432,165)	(283,721)
Net change in non-cash operating Items	754,461	719,321
	322,296	435,600
FINANCING ACTIVITIES		
Capital stock issuance	-	7,139,907
Share issuance costs	-	(386,966)
	-	6,752,941
INVESTING ACTIVITIES		
Disposal of shares	-	480,163
Disposal of interest in certain licenses	6,690,000	-
Expenses for the disposal of interest in certain licenses	(497,482)	-
Acquisition of fixed assets	(4,147)	(62,832)
Acquisition of oil and gas properties	(3,530)	(556,646)
Increase in deferred exploration expenses net of deductions	(704,077)	(4,155,956)
	5,480,764	(4,295,271)
INCREASE IN CASH AND CASH EQUIVALENTS	5,803,060	2,893,270
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,949,055	4,833,064
CASH AND CASH EQUIVALENTS, END OF PERIOD	7,752,115	7,726,354
CASH AND CASH EQUIVALENTS ARE AS FOLLOWS:		
Cash	4,151,115	4,255,802
Guaranteed investment certificates (redeemable)	3,600,000	-
Money market fund	1,000	3,470,552
	7,752,115	7,726,354

Pétrolia Inc.
(Oil and gas exploration company)



ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS
as at December 31, 2010

1. INCORPORATING ACTS AND TYPES OF ACTIVITIES

The Company, incorporated under part IA of the Quebec *Companies Act*, is an oil and gas exploration company whose shares have been traded on the TSX Venture Exchange since February 16, 2005 under the symbol PEA.

The Company is currently exploring its oil and gas properties, and its long-term profitability is in part dependent on the costs and success of its exploration programs and subsequent development. The Company has not yet established whether its properties include economically feasible reserves.

2. PRESENTATION OF FINANCIAL STATEMENTS

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, 2010. However, they do not include all of the information that must be provided in annual financial statements. These interim financial statements should therefore be read in parallel with the Company's most recent audited annual financial statements.

Certain comparative figures have been reclassified so as to comply with the presentation adopted during fiscal 2010.

3. OIL AND GAS PROPERTIES

	December 31, 2010	September 30, 2010
	\$	\$
	(unaudited)	(audited)
Quebec		
Anticosti	259,970	259,970
Gastonguay	638,497	638,497
Gaspésia-Edgar-Marcel-Tremblay	382,915	382,915
Gaspé ¹	1,621,881	2,427,941
New Brunswick		
Dalhousie	146,837	143,306
	<hr/> 3,050,100	<hr/> 3,852,629

⁽¹⁾ On December 20, 2010, the Company sold 50% of the Haldimand discovery, as well as 50% of the 13 associated licenses, for a cash amount of \$6,690,000. Exploration activities valued at \$8,500,000 will be carried out over the next two years.

Pétrolia Inc.

(Oil and gas exploration company)

ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS as at December 31, 2010

4. DEFERRED EXPLORATION EXPENSES

	September 30, 2010 \$ (audited)	Additions \$ (unaudited)	December 31, 2010 \$ (unaudited)
Quebec			
Anticosti	5,305,277	197,741	5,503,018
Gastonguay	73,473	625	74,098
Gaspésia-Edgar-Marcel-Tremblay	3,531,433	58,072	3,589,505
Gaspé	2,264,806	74,378	2,339,184
Bourque project	3,580,147	8,136	3,588,283
Haldimand project	9,383,853	327,077	9,710,930
Tar Point No. 1 project	4,699,028	65,611	4,764,639
New Brunswick			
Dalhousie	1,111,708	8,283	1,119,991
	29,949,725	739,923	30,689,648
Less:			
Exploration subsidies and partner contributions:			
Anticosti	1,930,632	16,709	1,947,341
Gastonguay	18,415	219	18,634
Gaspésia-Edgar-Marcel-Tremblay	341,818	26,481	368,299
Gaspé	483,228	17,887	501,115
Bourque project	3,027,548	2,848	3,030,396
Haldimand project	2,170,519	59,244	2,229,763
Tar Point No. 1 project	626,494	6,164	632,658
Dalhousie	6,922	-	6,922
	8,605,576	129,552	8,735,128
Income from evaluation of oil reserves:			
Gaspé			
Haldimand project	109,738	44,221	153,959
	109,738	44,221	153,959
	21,234,411	556,150	21,800,561

Pétrolia Inc.
(Oil and gas exploration company)



ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS
as at December 31, 2009

4. DEFERRED EXPLORATION EXPENSES (continued)

	September 30, 2009 \$	Additions \$	December 31, 2009 \$
	(unaudited)	(unaudited)	(unaudited)
Quebec			
Anticosti	1,344,024	11,396	1,355,420
Gastonguay	46,502	2,880	49,382
Gaspésia-Edgar-Marcel-Tremblay	3,475,534	5,365	3,480,899
Gaspé	2,875,327	13,235	2,888,562
Bourque project	3,364,231	194,044	3,588,275
Haldimand project	6,331,201	1,210,300	7,541,501
Tar Point No. 1 project	177,140	3,095,872	3,273,012
Others	102,707	-	102,707
New Brunswick			
Dalhousie	1,085,303	18,323	1,103,626
	18,801,969	4,551,415	23,353,384
Less:			
Exploration subsidies and partner contributions:			
Anticosti	442,611	1,709	444,320
Gastonguay	10,683	432	11,115
Gaspésia-Edgar-Marcel-Tremblay	325,194	804	325,998
Gaspé	462,824	1,985	464,809
Bourque project	2,844,231	180,458	3,024,689
Haldimand project	1,301,186	178,906	1,480,092
Tar Point No. 1 project	62,015	464,382	526,397
New Brunswick			
Dalhousie	6,922	-	6,922
	5,455,666	828,676	6,284,342
Income from evaluation of oil reserves:			
Gaspé			
Haldimand project	-	10,030	10,030
	-	10,030	10,030
	13,346,303	3,712,709	17,059,012



Pétrolia Inc.
(Oil and gas exploration company)

ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS
as at December 31, 2010

5) CAPITAL STOCK

Authorized

Unlimited number of common, participating, voting, and no par value shares.

Issued

50,067,287 common shares

Stock-Based Compensation Costs

The Company has a Stock Option plan that allows it to grant a maximum of 10% of the shares issued to its directors, officers, key employees, and suppliers on a continuous basis. The exercise price of each option corresponds to the market price or discounted market price on the day before the option was granted. Granted options cannot last more than five years. Rights are acquired upon the granting of the options for directors, and over a period of three years for other participants.

During the period, the Company granted stock options, with the fair value of each allocated option calculated using the Black-Scholes option pricing model and the following assumptions:

	December 2010
Risk-free interest rate	3%
Expected volatility	94%
Lifetime granted (years)	5
Rate of return of shares	Nil

Accordingly, the stock-based compensation as at December 31 was distributed as follows:

	2010	2009
	\$	\$
Statement of income	48,600	-
Deferred exploration expenses	34,200	-
Total	82,800	-

Pétrolia Inc.
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ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS
as at December 31, 2010

The following table summarizes information about the stock options:

	2010		2009	
	Number of options outstanding	Weighted average exercise price \$	Number of options outstanding	Weighted average exercise price \$
Outstanding and exercisable as at September 30	2,965,000	0.64	4,090,000	0.58
Granted	920,000	0.50	-	-
Exercised	-	-	(25,000)	0.40
Outstanding and exercisable at the end	3,885,000	0.61	4,065,000	0.58

As at December 31, 2010, the stock options granted as part of the Plan are allocated as follows:

Weighted average exercise price \$	Number	Expiration date
0.40	675,000	February 3, 2011
0.58	150,000	May 10, 2011
0.74	50,000	May 21, 2012
0.40	662,500	June 21, 2012
0.60	400,000	February 12, 2013
0.60	150,000	March 3, 2013
1.25	427,500	July 7, 2013
0.74	180,000	May 21, 2014
0.89	270,000	February 25, 2015
0.50	920,000	December 8, 2015

Warrants

Outstanding warrants can be exercised as follows:

Exercise price \$	Number	Expiration date
1.30	2,163,161	December 4, 2011
1.00	1,750,000	October 10, 2012
1.00	3,000,000	January 10, 2013

Pétrolia Inc.
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APPENDICES

Three-month period ended December 31

	2010	2009
	\$	\$
A- ADMINISTRATIVE EXPENSES		
Stock-based compensation	48,600	-
Salaries and fringe benefits	165,979	121,975
Insurance	12,635	14,565
Maintenance and office supplies	12,979	7,152
Travel expenses	28,421	23,046
Board of directors expenses	27,101	20,925
Information for shareholders	12,568	10,092
Office rent	16,836	6,832
Promotion and entertainment	31,312	36,890
Professional fees	63,712	48,237
Telecommunications	7,206	4,586
Depreciation of fixed assets	10,009	8,769
Interest on the debt	22,617	-
Other expenses	42,157	339
	502,132	303,408
B- OPERATING EXPENSES		
Stock-based compensation	34,200	-
Salaries and fringe benefits	229,574	271,295
Travel expenses	8,668	-
Insurance	747	710
Maintenance and office supplies	6,384	19,176
Training	2,178	4,797
Office rent	13,131	18,587
Telecommunications	2,527	2,148
Depreciation of fixed assets	4,836	4,294
Other expenses	1,593	116
Allocation to deferred exploration work	(266,605)	(326,299)
On (or under) allocation	(37,233)	5,176
	-	-