



Leader en exploration pétrolière au Québec



## **SECOND QUARTER**

**Unaudited interim financial statements**

**For the three- and six-month periods  
ended March 31, 2008**



**UNAUDITED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE- AND SIX-MONTH PERIODS ENDED MARCH 31, 2008**

**Declaration concerning the interim financial statements**

Management has prepared the interim financial statements of Pétrolia Inc., including the balance sheet as at March 31, 2008, as well as the statements of income, shareholders' equity, deferred exploration expenses, and cash flows for the three- and six-month periods ended on March 31, 2008. No external auditors' firm examined or verified these interim financial statements.

**Pétrolia Inc.**  
(Oil and gas exploration company)



**BALANCE SHEET**

	<b>As at March 31 2008 \$</b> (unaudited)	<b>As at September 30 2007 \$</b> (audited)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	231,209	48,473
Short-term investments	3,269,135	3,000,000
Accounts receivable	656,194	261,683
Prepaid expenses	15,909	117,763
	4,172,447	3,427,919
<b>Equity investments</b>	830,000	565,000
<b>Fixed Assets</b>	110,333	67,147
<b>Oil and Gas properties</b> (Note 3)	1,773,716	1,610,714
<b>Deferred exploration expenses</b> (Note 4)	7,718,351	7,066,177
	14,604,847	12,736,957
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable	301,400	315,976
Current portion of long-term debt	20,795	11,694
	322,195	327,670
<b>Long-term debt</b>	40,234	20,150
<b>Future taxes</b>	1,526,227	1,607,131
<b>Deposit on shares to be issued</b>	-	3,000,000
	1,888,656	4,954,951
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 7)	12,456,330	7,728,400
Contributed surplus – Stock options	912,142	636,968
Contributed surplus – Expired stock options	195,946	195,901
Deficit	(848,227)	(779,263)
	12,716,191	7,782,006
	14,604,847	12,736,957

On behalf of the Board

(signed) *André Proulx*  
Director

(signed) *Clément Duchesne*  
Director



**STATEMENT OF INCOME**

	<b>Periods ended March 31</b>			
	<b>2008</b> <b>(three months)</b> <b>\$</b> <small>(unaudited)</small>	<b>2007</b> <b>(three months)</b> <b>\$</b> <small>(unaudited)</small>	<b>2008</b> <b>(six months)</b> <b>\$</b> <small>(unaudited)</small>	<b>2007</b> <b>(six months)</b> <b>\$</b> <small>(unaudited)</small>
<b>REVENUE</b>				
Interest income	37,479	12,212	77,103	34,550
Gain on disposal of rolling stock	-	-	3,724	-
	<b>37,479</b>	<b>12,212</b>	<b>80,827</b>	<b>34,550</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
Stock-based compensation	207,450	-	207,450	-
Salaries and fringe benefits	84,187	64,613	144,984	131,450
Insurance	9,878	9,789	19,218	20,432
Information to shareholders	28,356	11,029	43,154	14,272
Promotion and entertainment	1,917	14,925	19,063	38,420
Office supplies	10,329	6,180	14,094	10,854
Governmental fees	-	2,319	-	13,076
Rent	12,456	8,147	25,053	16,810
Professional fees	10,714	3,837	20,857	12,082
Telecommunications	5,700	4,232	11,618	10,213
Interest on loans	603	-	944	-
Depreciation of tangible fixed assets	8,905	5,621	15,262	11,124
Costs attributable to exploration expenses	(22,624)	(2,284)	(27,025)	(34,671)
Others	35,235	8,262	46,023	17,595
	<b>393,106</b>	<b>136,670</b>	<b>540,695</b>	<b>261,657</b>
<b>EARNINGS (LOSS) BEFORE OTHER ITEM AND INCOME TAXES</b>	<b>(355,627)</b>	<b>(124,458)</b>	<b>(459,868)</b>	<b>(227,107)</b>
<b>OTHER ITEM</b>				
Unrealized gain on financial assets held for trading	200,000	400,000	310,000	400,000
<b>EARNINGS (LOSS) BEFORE INCOME TAXES</b>	<b>(155,627)</b>	<b>275,542</b>	<b>(149,868)</b>	<b>172,893</b>
Future income taxes	(48,046)	(39,711)	(80,904)	(72,352)
<b>NET EARNINGS (NET LOSS )</b>	<b>(107,581)</b>	<b>315,253</b>	<b>(68,964)</b>	<b>245,245</b>
<b>BASIC AND DILUTED NET EARNINGS (NET LOSS) PER SHARE</b>	<b>(0.0035)</b>	<b>0.109</b>	<b>(0.0023)</b>	<b>0.0084</b>

**Pétrolia Inc.**  
(Oil and gas exploration company)



**STATEMENT OF SHAREHOLDERS' EQUITY**

	Capital Stock		Contributed surplus – Stock options	Contributed surplus – Expired stock options	Deficit	Total
	Shares	Amount				
		\$	\$	\$	\$	\$
<b>Audited balance as at September 30, 2006</b>	28,548,649	7,379,827	450,057	159,596	(491,118)	7,498,362
<b>Issued during the year</b>						
Warrants exercised	104,500	61,675	-	-	-	61,675
Broker warrants exercised	555,103	292,223	(81,284)	-	-	210,939
<b>Share issuance costs</b>	-	(5,325)	-	-	-	(5,325)
<b>Other activities</b>						
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)
<b>Audited balance as at September 30, 2007</b>	29,208,252	7,728,400	636,968	195,901	(779,263)	7,782,006
<b>Issued during the period</b>						
Cash	4,750,000	4,750,000	-	-	-	4,750,000
Broker warrants exercised	201,802	106,716	(30,031)	-	-	76,685
Stock options exercised	25,000	16,750	(6,750)	-	-	10,000
<b>Share issuance costs</b>	-	(145,536)	-	-	-	(145,536)
<b>Other activities</b>						
Stock-based compensation	-	-	312,000	-	-	312,000
Expired broker warrants	-	-	(45)	45	-	-
Net loss	-	-	-	-	(68,964)	(68,964)
<b>Unaudited balance as at March 31, 2008</b>	34,185,054	12,456,330	912,142	195,946	(848,227)	12,716,191

**Pétrolia Inc.**  
(Oil and gas exploration company)



**STATEMENT OF DEFERRED EXPLORATION EXPENSES**

	<b>Periods ended March 31</b>			
	<b>2008</b> <b>(three months)</b> <b>\$</b> <small>(unaudited)</small>	<b>2007</b> <b>(three months)</b> <b>\$</b> <small>(unaudited)</small>	<b>2008</b> <b>(six months)</b> <b>\$</b> <small>(unaudited)</small>	<b>2007</b> <b>(six months)</b> <b>\$</b> <small>(unaudited)</small>
<b>EXPLORATION EXPENSES</b>				
Analyses	6,622	-	6,622	4,410
Drilling	30,969	16,975	69,670	60,584
Geology	123,362	49,448	218,998	145,091
Geophysical surveys	488,627	13,707	500,995	937,165
General supervision	22,624	2,285	27,025	34,671
Stock-based compensation	104,550	-	104,550	-
	776,754	82,415	927,860	1,181,921
<b>DEDUCTION</b>				
Exploration subsidies	275,686	-	275,686	-
<b>INCREASE IN EXPLORATION EXPENSES FOR THE PERIOD</b>	<b>501,068</b>	<b>82,415</b>	<b>652,174</b>	<b>1,181,921</b>
<b>BALANCE, BEGINNING OF PERIOD</b>	<b>7,217,283</b>	<b>6,671,069</b>	<b>7,066,177</b>	<b>5,571,563</b>
<b>BALANCE, END OF PERIOD</b>	<b>7,718,351</b>	<b>6,753,484</b>	<b>7,718,351</b>	<b>6,753,484</b>



**STATEMENT OF CASH FLOWS**

	<b>Periods ended March 31</b>			
	<b>2008</b> (three months) \$ (unaudited)	<b>2007</b> (three months) \$ (unaudited)	<b>2008</b> (six months) \$ (unaudited)	<b>2007</b> (six months) \$ (unaudited)
<b>OPERATING ACTIVITIES</b>				
Net earnings (net loss)	(107,581)	315,253	(68,964)	245,245
Items not affecting cash				
Depreciation of fixed assets	8,905	5,621	15,262	11,124
Gain on disposal of rolling stock	-	-	(3,724)	-
Stock-based compensation	207,450	-	207,450	-
Future income taxes	(48,046)	(39,711)	(80,904)	(72,352)
Unrealized gain on financial assets held for trading	(200,000)	(400,000)	(310,000)	(400,000)
	(139,272)	(118,837)	(240,880)	(215,983)
Net change in non-cash operating working capital items	89,671	(128,162)	58,965	(24,624)
	(49,601)	(246,999)	(181,915)	(240,607)
<b>FINANCING ACTIVITIES</b>				
Acquisition of additional financing	-	-	37,889	-
Capital stock issuance	10,000	-	1,836,685	264,419
Share issuance costs	(23,225)	(16,385)	(145,536)	(50,107)
Repayment of long-term debt	(5,089)	(2,842)	(8,704)	(5,667)
	(18,314)	(19,227)	1,720,334	208,645
<b>INVESTING ACTIVITIES</b>				
Acquisition of fixed assets	-	(4,085)	(59,630)	(9,994)
Acquisition of oil and gas properties	81,491	(22,739)	(163,002)	(22,739)
Increase in deferred exploration expenses net of government subsidies	(723,261)	(760,414)	(913,822)	(1,165,908)
Disposal of rolling stock	-	-	4,906	-
Disposal of long-term investment	45,000	-	45,000	-
	(596,770)	(787,238)	(1,086,548)	(1,198,641)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(664,685)	(1,053,464)	451,871	(1,230,603)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	4,165,029	1,706,265	3,048,473	1,883,404
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	3,500,344	652,801	3,500,344	652,801
<b>CASH AND CASH EQUIVALENTS OF THE COMPANY ARE AS FOLLOWS:</b>				
Cash	231,209	24,005	231,209	24,005
Short-term investments	3,269,135	628,796	3,269,135	628,796
	3,500,344	652,801	3,500,344	652,801



**ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS**  
**March 31, 2008**

**1) INTERIM FINANCIAL INFORMATION**

The financial information as at March 31, 2008, and for the periods ended on March 31, 2008, 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.

These 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 used to prepare the Company's most recent annual financial statements. 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 annual financial statements.

**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 annual financial statements. 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.





**ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS**  
**March 31, 2008**

**2) SIGNIFICANT ACCOUNTING POLICES (continued)**

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.

**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 section will have no significant impact on the financial statements.

**3) OIL AND GAS PROPERTIES**

	<b>March 31, 2008</b>	<b>September 30, 2007</b>
	\$	\$
	(unaudited)	(audited)
<b>Quebec</b>		
Edgar	15,003	10,002
Gaspésia	188,660	188,660
Gaspé and Gastonguay	1,449,446	1,386,107
Marcel Tremblay	3,317	4,746
Anticosti	96,091	-
<b>New Brunswick</b>		
Dalhousie	21,199	21,199
	<b>1,773,716</b>	<b>1,610,714</b>

**Pétrolia Inc.**  
(Oil and gas exploration company)



**ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS**  
**March 31, 2008**

**4) DEFERRED EXPLORATION EXPENSES**

	September 30, 2007	Additions	March 31, 2008
	\$	\$	\$
	(audited)		(unaudited)
<b>Quebec</b>			
Edgar	205,465	15,878	221,343
Gaspésia	2,455,102	62,402	2,517,504
Gaspé and Gastonguay	4,422,106	185,250	4,607,356
Saint-Simon	102,707	-	102,707
Marcel Tremblay	2,529	11,779	14,308
Anticosti	23,757	615,788	639,545
<b>New Brunswick</b>			
Dalhousie	19,779	36,763	56,542
	7,231,445	927,860	8,159,305
Less:			
Exploration subsidies -			
Edgar	11,512	4,912	16,424
Gaspésia	53,598	19,306	72,904
Gaspé and Gastonguay	84,036	57,312	141,348
Marcel Tremblay	885	3,644	4,529
Anticosti	8,315	190,512	198,827
Dalhousie	6,922	-	6,922
	165,268	275,686	440,954
	7,066,177	652,174	7,718,351
	September 30, 2006	Additions	March 31, 2007
	\$	\$	\$
	(audited)		(unaudited)
<b>Quebec</b>			
Edgar	2,196	175,703	177,899
Gaspésia	1,469,658	893,412	2,363,070
Gaspé and Gastonguay	4,029,616	106,076	4,135,692
Saint-Simon	102,564	143	102,707
<b>New Brunswick</b>			
Dalhousie	-	6,587	6,587
	5,604,034	1,181,921	6,785,955
Less:			
Exploration subsidies –			
Gaspésia	32,471	-	32,471
	5,571,563	1,181,921	6,753,484



**ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS**  
**March 31, 2008**

**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 March 31, 2008, 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	Non-interest bearing and fixed rate
Accounts receivable	Non-interest bearing
Excess of outstanding cheques over bank balance	Non-interest bearing
Accounts payable and expenses	Non-interest bearing
Long-term debt	Fixed rates of 2.5% and 4.7%



**Pétrolia Inc.**  
(Oil and gas exploration company)

**ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS**  
**March 31, 2008**

**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 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**  
**March 31, 2008**

**7) CAPITAL STOCK**

**Stock-based compensation**

The Company has a Stock Option plan under which it can grant options up to 10% of its issued and outstanding shares to its directors, officers, key employees, and suppliers on a continuous basis. The exercise price of each option corresponds to the market price of the underlying stock on the date on which the option was granted. The maximum term of granted options may not exceed five years, and they may be exercised at any time during their term. The maximum number of shares that can be granted to any individual beneficiary is 5% of the total number of issued and outstanding shares as at the grant date minus the number of shares already reserved for issuance to that beneficiary for any other stock option.

During the quarter, the Company granted stock options with exercise prices that correspond to the market price of the stock on their grant date. The fair value of each option is calculated according to the Black-Scholes option pricing model, using the following assumptions:

	<b>Stock options February and March 2008</b>
Risk-free interest rate	5.75 %
Expected volatility	80 %
Weighted expected life (years)	5
Dividend yield	None

Accordingly, the stock-based compensation cost was recorded as follows:

Statement of Income	\$207,450
Deferred exploration expenses	\$104,550

The weighted average of the fair values of the stock options as at the grant date is \$0.61.

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(Oil and gas exploration company)



**ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS**  
**March 31, 2008**

**7) CAPITAL STOCK (Continued)**

The following table summarizes the outstanding stock options:

	<b>Number of options outstanding</b>	<b>Weighted average exercise price \$</b>
	(unaudited)	(unaudited)
Outstanding and exercisable, as at September 30, 2007	2,645,000	0.41
Granted	750,000	0.610
Exercised	(25,000)	0.40
Outstanding and exercisable, as at March 31, 2008	3,370,000	0.45