ANNUAL REPORT 2009

PÉTROLIA

Quebec's Leader in Oil Exploration

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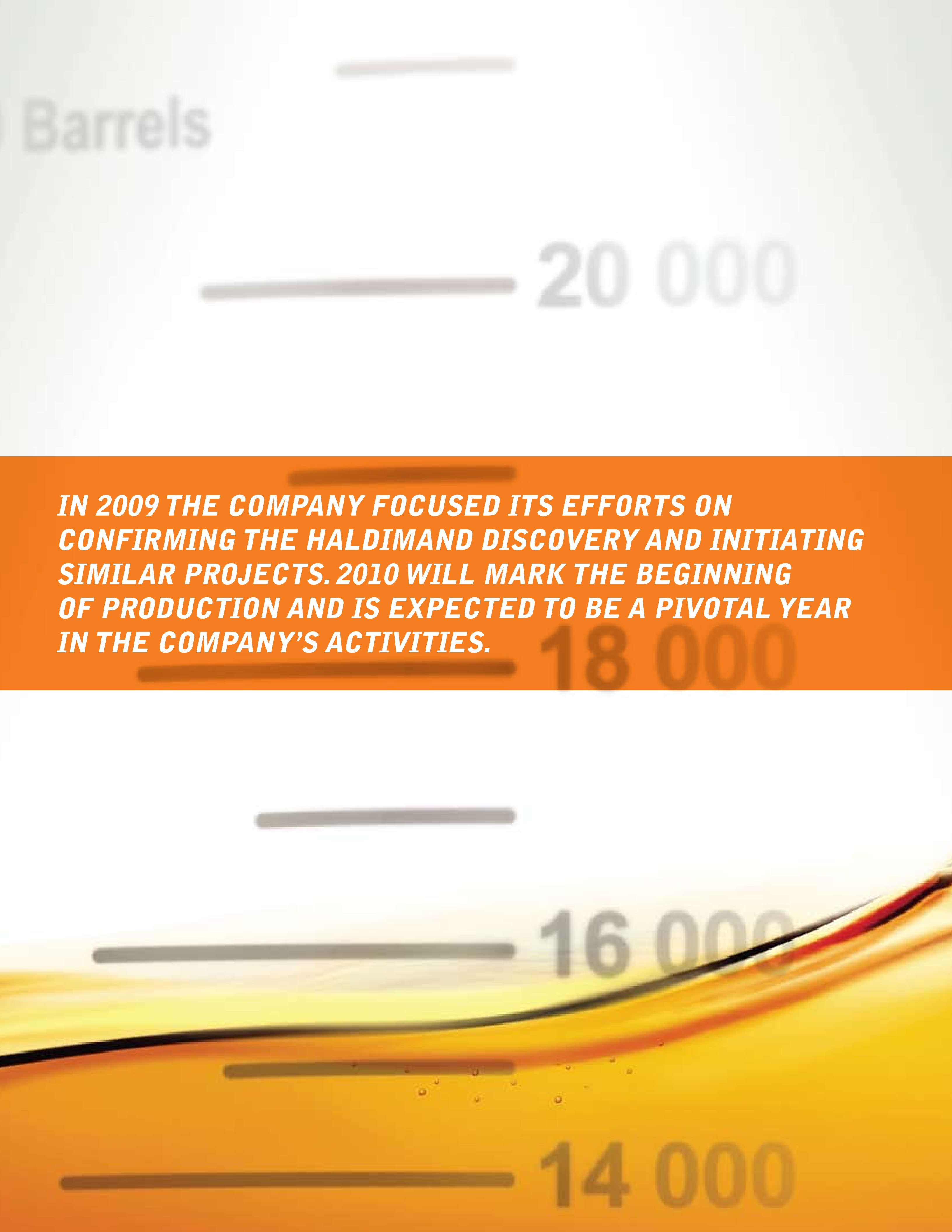


IN 2009 THE COMPANY FOCUSED ITS EFFORTS ON CONFIRMING THE HALDIMAND DISCOVERY AND INITIATING SIMILAR PROJECTS. 2010 WILL MARK THE BEGINNING OF PRODUCTION AND IS EXPECTED TO BE A PIVOTAL YEAR IN THE COMPANY'S ACTIVITIES.

A word from the President

Photo courtesy of Éditions Bas-Saint-Laurent/Gaspésie Quebecor Media

Since 2005, Pétrolia has put itself on the hydrocarbon-exploration map of Quebec by its lease acquisitions and its ability to identify high-potential targets. At present the Company controls more than 70% of Quebec's onshore petroleum potential, and three of its wells have reached the production-testing stage. In spite of the 2008 trend to emphasize exploration for shale gas, Pétrolia has held its course and concentrated its efforts on oil exploration. Moreover, in contrast to many companies, Pétrolia stepped up its exploration activities in 2009, in spite of the turbulence and volatility of the markets. This persistence has paid off, because while the price of natural gas was collapsing the price of crude held up. Beside, the demand for oil is always growing, while the reserves tend to diminish. In this situation, a number of North-American companies have now modified their acquisition strategy, buying oil-producing companies in order to consolidate their assets. On the eve of starting production of light oil, Pétrolia detains all the favorable elements to increase its stock value. The Company can justifiably claim to be the leader in oil exploration in Quebec.

In 2008 Pétrolia set itself the objective of producing, by 2013, 5% of the petroleum consumed in Quebec which represents 20,000 barrels/day. In 2009 the Company reasserted this objective, and the results of the drilling carried out this year allow us to believe that it will soon be producing a significant fraction of Quebec's consumption. However, Pétrolia is well aware that the Haldimand discovery alone will not enable it to reach its objective of 20,000 barrels/day within the next four years. From a strategic viewpoint it was important to explore new areas likely to provide drilling targets of Haldimand type. The Tar Point project then quickly became the natural choice because of its proximity to Haldimand and its great potential, already suggested by previous work. A concentration of effort on its discoveries so as to accelerate production from them has always been the Company's strategy. Thus by investing in the Tar Point project, the risk involved in exploration would be reduced, and the chances for a discovery increased.

Now that oil and gas activities are becoming a more prominent feature of their environment, the population of the regions being explored are expressing their concerns, and raising questions about the future consequences of this work. In all of its drilling operations, Pétrolia has attempted to be as transparent as its activities allowed, sharing as much information as possible. Pétrolia believes that it is essential to keep people informed at every step along the way. If the objective of producing 5% of the petroleum consumed in Quebec is achieved within four years, it will mean that Pétrolia will be active in the region over the long term. Its integration into the community will require a lengthy process of confidence-building, which must be based on good communication, integrity, and a respect for the physical and socio-economic environment. For this reason the Company has, for the last two years, been involved in the creation and support of employment in the Gaspé and Lower St. Lawrence regions. It has also taken part in round tables on petroleum production and in the communities' social activities.

2008 was devoted to the acquisition of information that led to the identification of a number of targets for drilling. In 2009 the Company focused its efforts on confirming the Haldimand discovery and initiating similar projects. **2010 will mark the beginning of production and is expected to be a pivotal year in the Company's activities**.

2010: leader in petroleum production

2010 will be a turning point for Pétrolia. Already fully familiar with hydrocarbon exploration, the Company will be taking its first steps in the production of petroleum. This beginning will of course be a modest one, since only three wells will be involved. However, Pétrolia intends to step up its work program by pursuing both the development of the Haldimand field and the assessment of the Pétrolia-Tar Point No. 1 well. It should be noted that this will be the first significant commercial production not just for Pétrolia, but indeed for Quebec as a whole. This production will of course generate income for the Company, but it will also have a snowball effect: publicity about Pétrolia's will put it in a good position to negotiate new partnerships and thereby to expand its exploration efforts, thus in turn increasing its chances for new discoveries.

Petroleum exploration in the Gaspé region has never before reached this level of understanding and advancement. The information acquired will therefore open the door to a more wide-ranging exploration of the area. Pétrolia is resolved to move ahead in 2010 and develop its discoveries. It also aims to intensify its exploration efforts; in fact, a number of exploration targets are ready for drilling. To summarize, 2010 will mark the beginning of our production history.

I would like to express my personal thanks to all of Pétrolia's employees for their devoted work and their determination to demonstrate Quebec's petroleum potential, and to all our shareholders and financial partners for their patience and trust, without which our exploration work would not have been possible.

André Proulx, president of the Company

OBJECTIVE: 20,000 BARRELS/ DAY

On the eve of starting production of light oil, Pétrolia detains all the favorable elements to increase its stock value. The Company can justifiably claim to be the leader in oil exploration in Quebec.

With this in mind, Pétrolia seized the opportunity to become the operator for Haldimand and to increase its share of the project from 45 to 65%.

CONCENTRATING ITS EFFORTS

Highlights 2009

Progress on the Haldimand project

In 2009, the Company brought all its efforts to bear on advancing the Haldimand project, so as to bring this petroleum discovery into production as quickly as possible. With this in mind, Pétrolia seized the opportunity to become the operator for Haldimand and to increase its share of the project from 45 to 65% by acquiring 10% of Gastem's interest and 10% of the interest held by Junex. In September 2009 the drilling of the Pétrolia-Haldimand No. 2 well confirmed that the project possessed all the requirements for becoming a profitable producing oilfield.

Financing of seven million dollars

Pétrolia began its drilling campaign (Haldimand No. 2 and Tar Point No. 1) with cash resources of $5.4 M. With positive results from the drilling operations and the forthcoming assessment work (production test), Pétrolia needed to consider new financing before moving to the production stage. The $7 M acquired will be used to undertake the assessment work necessary to determine the level of production.

Asset consolidation

At this stage in its development, the majority of the Company's assets consist of exploration leases, which provide the foundation on which the Company's exploration program is built. Pétrolia needs to keep them in good standing, because a petroleum discovery backed up by large areas under lease will always attract a lot of interest. In 2009, Pétrolia was able to renew its leases, which will allow it to continue to explore its vast holdings for an additional period of nine years (subject to complying with the terms on which the leases are issued). This renewal secures the Company's assets by enabling it to concentrate its financial forces on developing and producing from its discoveries over the next few years, rather than on seeking new targets for exploration.

An energetic team

If Pétrolia was able to achieve its 2009 objectives, this was in large part due to the unremitting work of its team. Since 2005 the Company has endeavoured to build a multidisciplinary team with international experience in oil and gas exploration. Now that is about to become a producing company, Pétrolia must ensure that its corporate strategies are directed towards achieving its production objectives. Accordingly, in 2009 Pétrolia increased its board of directors by adding new members who possess relevant experience in the petroleum industry in the areas of management, administration, and financing.

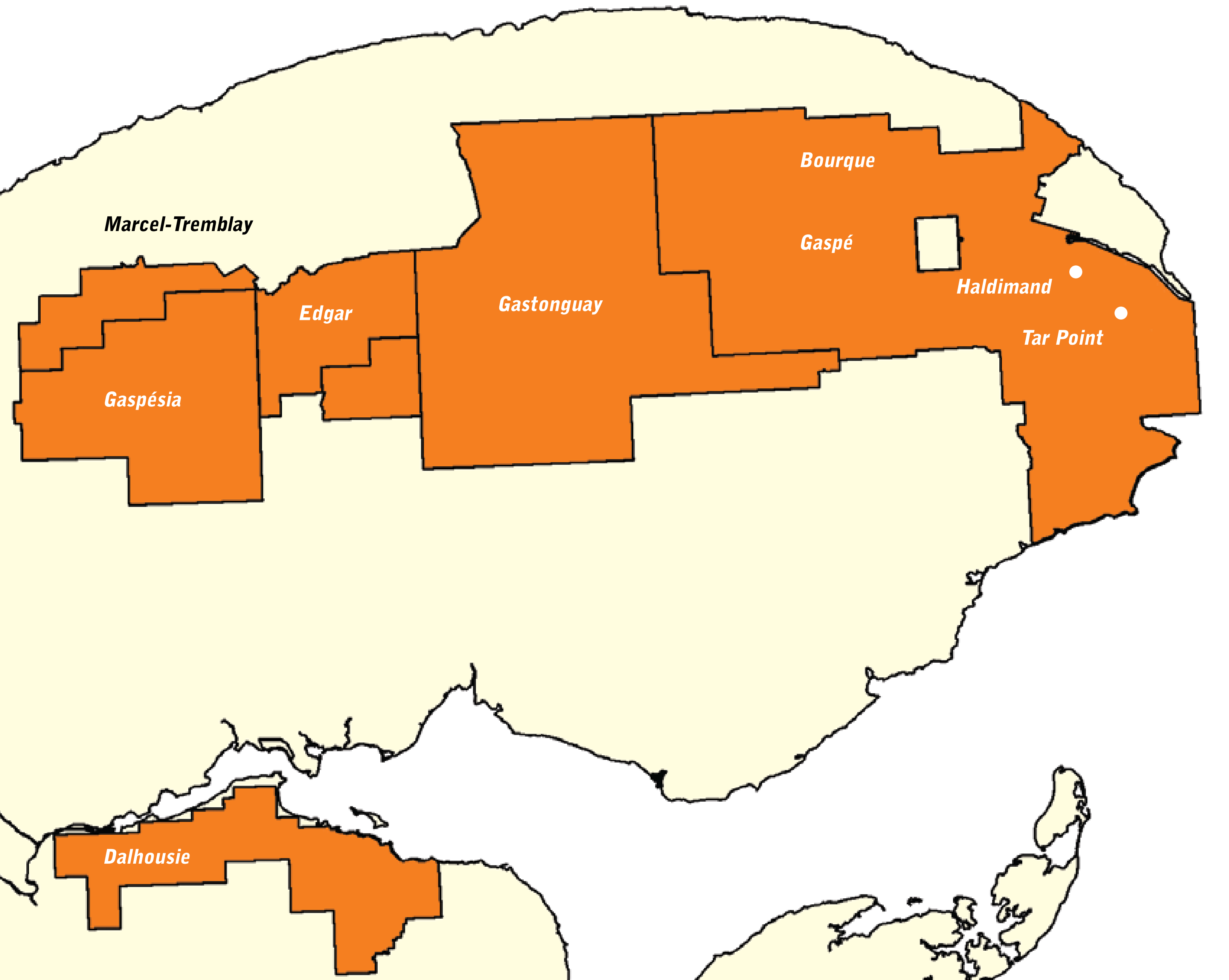
Tar Point drilling

The results obtained from the Pétrolia-Tar Point No. 1 well confirm the high potential for oil and gas developments in the Haldimand Corridor. Pétrolia can now extend its exploration work to cover the whole Haldimand Corridor, with excellent chances for success.

Energy to share

Over more than a century the people of Gaspé have witnessed recurring surges of exploration for hydrocarbons. Pétrolia has been working in the region for nearly five years, and expects to be there for many more. Believing that the acceptance and welcome accorded to a project always begin with open communications, Pétrolia invited the local population to an open day event while drilling Tar Point No. 1. Nearly 300 people accepted the invitation. Grown-ups and children, all of them curious, came to see the drilling equipment in action and to learn about the various stages in drilling a well. Pétrolia is proud to be one of the very few oil companies to have undertaken this kind of initiative on such a large scale.

Management discussion and analysis for the fiscal year ended September 30, 2009



This annual management report is an addition and supplement to the audited financial statements for the fiscal years ended September 30, 2009 and 2008, and should be read in conjunction with those statements, which were prepared in accordance with Canada's generally accepted accounting principles (GAAP). This management report presents the views of management on current Company activities and on the annual financial results, as well as a preview of activities during the coming fiscal year.

Date

This annual management report for the fiscal year ended September 30, 2009 is dated December 15, 2009.

Nature of activities

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

Forward-looking statements

This report contains statements which should be considered to be forward-looking statements. The said statements relate to future events or to Pétrolia's future economic results and involve risks, uncertainties, and other factors, both known and unknown, that could significantly affect the results, performance, and achievements indicated or implied by Pétrolia's statements. Actual events and results could be very different. Accordingly, a decision to invest in Pétrolia's securities should in no circumstance be based on these forward-looking statements. Pétrolia has neither the intention nor the obligation to update these forward-looking statements.

Strategy and outlook

The Company's strategy is primarily aimed at the discovery of oil and gas reserves, and to achieve profitable and secure production from them at the earliest possible date. It achieves its objectives by obtaining rights over promising properties, with the support of experienced partners, and by drilling wells based on technical knowledge and the best engineering practices, while balancing risks against returns.

The Company currently operates no oil wells. Since it is still in the exploration stage, the Company's only income for the 2009 fiscal year is derived from interest and project management. Its financing therefore comes from the issuance of shares of its capital stock. The "Commitments" heading reports the contractual commitments required to keep its exploration licenses in good standing.

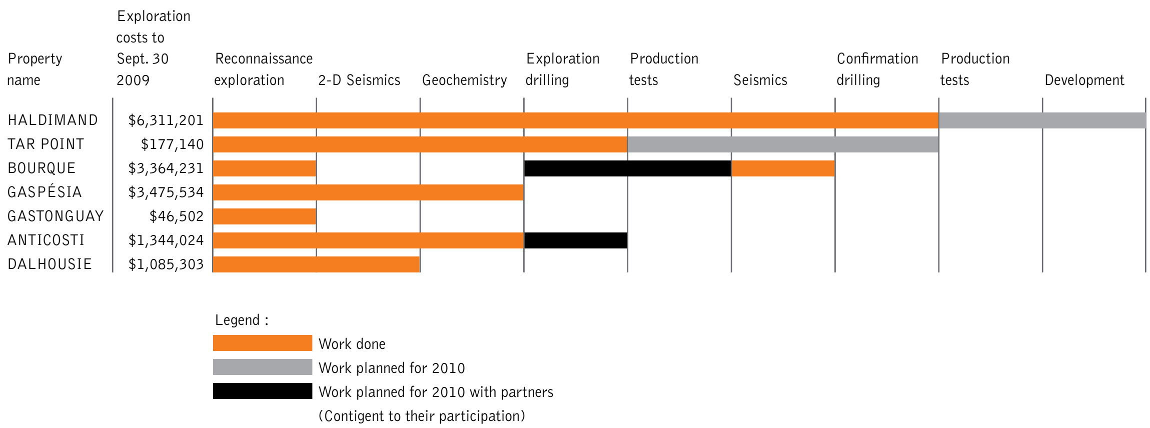
During the fiscal year the Company performed $5,848,244 of exploration work, compared with $5,722,280 for the previous fiscal year. For the fiscal year 2009 it incurred a loss of $854,911 ($0.021 per share) compared to a loss of $774,527 for fiscal year 2008 ($0.022 per share).

Summary of 2009 exploration work

The year 2009 saw Pétrolia achieve solid returns from its exploration endeavours during recent years with the drilling of a confirmation well on the Haldimand deposit, an exploration well on the Tar Point structure, and preparations for two other exploration wells on the Bourque project. This year's main highlights were:

- The drilling of Pétrolia-Haldimand No. 2 and Pétrolia-Tar Point No. 1;
- Renewal of the exploration leases covering all the properties.

Stage (progress of work)



Haldimand project

The Haldimand project is currently the Company's most important venture, firstly because the Pétrolia-Haldimand No. 1 well, drilled in 2006, led to the first potentially-profitable petroleum discovery in Quebec, and secondly because the Haldimand No. 2 well confirmed the discovery. These results demonstrate not only the Company's professional approach to its exploration activities, but they also open the way to new discoveries, as shown by recent results from the Pétrolia-Tar Point No. 1 confirmation well.

The Pétrolia-Haldimand No. 2 well reached a depth of 1,200 m. It showed that the Haldimand deposit extends for at least one kilometre to the northwest of the discovery well. The top of the favourable zone was encountered at a depth of 630 m, 225 m higher than in the first well. The drilling also showed that the section dominated by petroleum-saturated sandstones is much thicker at this location than in the first hole. The imaging data conclusively demonstrated the presence of abundant open fractures, concentrated in two intervals that are each about 50 m thick. Moreover, in view of the information gained from the Haldimand No. 2 well, and

considering the presence of open fractures, we conclude that the production potential at Pétrolia-Haldimand No. 1 has been underestimated. The tests to be conducted in early 2010 will determine whether these techniques will be sufficient to bring the Pétrolia-Haldimand No. 1 well into production.

In 2009, Pétrolia became the principal contractor for the work at Haldimand when its partners, Junex and Gastem, sold their interests in the project in order to pursue a shale gas strategy rather than engage in petroleum exploration in the Gaspé region. Pétrolia seized this unique opportunity which, in addition to raising its interest from 45% to 65%, enabled the Company to resume control of the operations. By taking over the management of the operations, Pétrolia ensured that the drilling activities would proceed in accordance with the Company's own criteria and that the quality of the data obtained would meet its expectations.

In August, Pétrolia mobilized a drilling rig and secured the services of specialized consultants and suppliers, so as to obtain the best possible data during the drilling of Pétrolia-Haldimand No. 2. Pétrolia applied innovative drilling techniques that had not previously been employed in the Gaspé region. These techniques enabled an optimization of the drilling rate and significantly reduced the time required for drilling, which led to substantial savings. Another of the Company's innovations improved the assessment of the well by supplementing conventional well-logging techniques with imaging and magnetic-resonance logs, which provide significant information on reservoir characteristics.

The data obtained during the drilling of Pétrolia-Haldimand No. 2 suggest that it is an unconventional deposit, consisting of a reservoir with low matrix porosity, cut by a network of open fractures. The use of directional drilling and new methods of hydraulic reservoir stimulation are now making feasible profitable production from this type of deposit. The best example is the Bakken oilfield in southern Saskatchewan and the north-central United States, where production is very large in spite of reservoir characteristics that initially appeared unattractive.

In early January 2010 a service drill will be mobilized with the objective of putting the two wells into production. Tests will be performed on the most promising sections and hydraulic fracturing operations will be carried out to increase the production capacity from both wells. Studies are under way to identify the most suitable method of fracturing. Production from the two wells on the Haldimand deposit should begin during the spring of 2010.

The work on these two wells will provide a better understanding of the characteristics of the Haldimand oilfield and lead to the preparation of a comprehensive development plan, to include confirmation wells, production wells, and the required surface facilities. This is a crucial stage in Pétrolia's strategic plan, which aims to develop the Haldimand field as quickly as possible and to achieve production at an early date.

Tar Point project

Following the discovery at Pétrolia-Haldimand No.1, the Company launched an exploration program on the Gaspé property, aimed at finding additional deposits of Haldimand

type. Using its acquired knowledge, in particular from seismic and geochemical surveys, Pétrolia was able to identify the Haldimand Corridor, which displays the same geologic features as the initial discovery, and over which the Company holds a 100% interest. In 2008, geochemical and 2-D seismic surveys defined a drilling target at Anse-à-Brillant (a site known as Tar Point, because of its surface showings of petroleum). Moreover, a well located in this area in 1949 had found signs of gas and oil at several horizons. The Tar Point project is part of Pétrolia's strategy of concentrating its resources on the projects with the highest probability of success, and thereby making the Company profitable in the near term.

The Pétrolia-Tar Point No.1 well was completed on December 7, 2009. It reached a final depth of 2,434 m. After drilling through sandstones displaying characteristics similar to those in the Haldimand reservoir sandstones, followed by a thick limestone unit with open, petroleum-saturated fractures, the well reached in other sandstones in which indications of oil and gas were observed. A drill stem test in the fractured limestones produced a small quantity of light crude and gas on surface, over a flow period of slightly more than one hour. Preliminary analysis indicates that this zone represents a potentially significant petroleum discovery. Examination of the data suggests a production potential of about 20 barrels of light crude per day, together with some gas. In the near term this zone will be the subject of a production test aimed at determining the scope of the discovery, and if it proves to be significant, the possibility of stimulating the reservoir to improve production will be investigated.

The results obtained from the Pétrolia-Tar Point No. 1 well confirm the high potential for hydrocarbon developments in the Haldimand Corridor. Pétrolia can now extend its exploration work to cover the whole corridor, with excellent chances for success.

Bourque project

While the Haldimand Corridor offers Pétrolia an opportunity to produce petroleum in the near future, the Bourque project opens the possibility of discovering a very large deposit. The Bourque project is located in the northwest portion of the Gaspé property, 70 km west of the town of Gaspé, on leases that are 100% owned by Pétrolia. The project is the subject of a $ 20 M farmout agreement with Pilatus Energy, which allows Pilatus to earn a 70% interest in the project (press release of August 5, 2008). Pilatus has already carried out the first part of the agreement, a 3-D seismic survey, but before August 5, 2011 it must undertake exploration work of about $4.5 M in order to acquire its first 24% share of interest. The project has reached the drilling stage but Pétrolia must obtain approval from Pilatus Energy before mobilizing a drilling rig and advancing further into this phase of the operation.

Interpretation of the 65 km² 3-D seismic survey acquired in 2008 revealed the presence of a major reef complex in the Siluro-Devonian rocks of this portion of the Gaspé region. Pétrolia and Pilatus Energy have agreed on the location of two drilling sites selected to evaluate separate objectives within the reef complex. The total depth of the intended targets is about 3,000 m. This type of trap can hold considerable quantities of hydrocarbons. It is reminiscent of the Leduc-type reefs in Alberta in which giant oilfields have been discovered—a turning point for oil and gas exploration in Alberta.

The Bourque project illustrates another aspect of Pétrolia's strategy, which consists of forming associations with industry partners with the financial resources and technical abilities needed to invest in this type of higher-cost, higher-risk project.

The Bourque project is very important to Pétrolia and its shareholders in view of the size of the discoveries that could be made and of the interest that would be aroused regarding Pétrolia's other properties, where similar geologic conditions prevail.

Dalhousie project

Results from the seismic programs carried out on the Dalhousie property in 2008 and 2009 were sufficiently encouraging that Pétrolia is now planning to drill there. The surveys have shown that the area includes several large-scale anticlinal structures that could form potential traps.

The seismic also suggests the presence of a gas/liquid interface in one of these structures, at a depth of 1,400 m.

Even if northern New Brunswick proves to have more gas than oil potential, the region will still be of interest because, owing to its great size, the target structure could, in the event of a discovery, provide a substantial volume of gas. This gas could supply local companies, and possibly a wider market if the necessary infrastructures were established. However, for a number of political and economic factors which render the project less attractive, Pétrolia has temporarily placed the project on hold, because even a significant discovery would not ensure a profitable project under current conditions. Indeed, the lack of gas pipelines in the region, the weak natural-gas price, and the fact that no local industry is currently ready use natural gas power make the project less attractive than those in eastern Gaspé. In addition, uncertainties concerning the future of NB Power's Belledune and Dalhousie thermal power plants, together with its negotiations with Hydro-Québec, only increase the uncertainty regarding the strategy to adopt for the exploration of this region. Before resuming its exploration work Pétrolia must make sure that the economic conditions are more favorable. Meanwhile, the Company continues to seek partners for the pursuit of exploration activities, including drilling.

Other properties

Since Pétrolia's resources have been almost exclusively directed towards work to confirm the discovery at Pétrolia-Haldimand No. 1 and the drilling at Tar Point, the Company has considerably reduced its activities on other properties. The following is a brief summary of work during the last year.

On Anticosti Island, unfavourable economic conditions convinced the partners to postpone the drilling program scheduled for 2009 until a later date. However, interpretation of seismic surveys and the 2008 geochemical survey continued in 2009, and this work confirmed the Island's very high potential for hydrocarbons. A number of targets were identified and Pétrolia is ready to begin drilling as soon as the conditions are favourable. However, the Company is actively looking for partners who wish to invest in this region.

As regards the Gaspésia, Edgar, Marcel-Tremblay, and Gastonguay properties, thermal-maturation studies have shown that a broad area of these properties is favourable for the preservation of natural gas, and that a small portion is favourable for the preservation of petroleum. In 2008, Pétrolia devoted much effort to the interpretation of the seismic data acquired over these properties. In addition, a regional geochemical survey was carried out in 2008 to examine the structures most likely to contain hydrocarbons. Integration of the seismic and geochemical results has identified targets for drilling, but additional seismic surveys will be required to locate them more precisely. For the time being Pétrolia is more focused on its petroleum potential. However, it is always on the lookout for partners for a gas-exploration venture in the Gaspé region.

Management analysis of financial information

Operating results and cash position

For fiscal year 2009, the Company's income is made up of interest income on short-term investments of $175,238 compared to $224,714 for fiscal year 2008, project management income of $11,706 compared to $26,736, and a gain on disposal of investment of $17,700.

The loss for the fiscal year of $854,911 is comparable to the loss for 2008 of $774,527.

The decrease in interest income is explained by the decrease in cash flows. The Company did not issue any shares during the last fiscal year. Following a drop in stock market investments, the investment, listed on the stock market, lost nearly 40% of its value as at September 30, 2008, resulting in an unrealized loss of $440,800.

As of September 30, 2009, the Company had cash and cash equivalents of $4,833,084, and its working capital was positive at $5,937,045.

During the fiscal year, the Company did not issue shares of its capital stock. However, as of December 4, 2009, the Company issued 7,960,568 shares in exchange for $7,129,910 cash. Management feels that the current cash situation is satisfactory to meet its current commitments. For its financial needs, the Company could be able to rely on its capacity to mobilize shareholders' equity through public offerings and negotiated private placements.

Analysis of general and administrative expenses

The main differences in the general and administrative expenses are:

- Stock-based compensation costs: 230,000 stock options were granted in 2009, compared to 1,350,000 stock options in 2008.
- Capital tax: Revenu Quebec rejected the capital tax exemption, since the oil and gas companies are not exempted , contrary to mining societies.
- Board of directors expenses: 2009 is the first fiscal year during which compensation was granted to the directors.

As of October 1, 2008, the Company hired employees of a related company "Géominex Inc.", whose main officer, holder of a minority interest, is also Pétrolia's director. Before this date, Géominex billed for fees that were recorded directly in deferred exploration work. Since October 1, 2008, the salaries of employees related to exploration work have been recorded in general expenses and allocated to the properties in question.

Selected annual information

	2009	2008	2007
	$	$	$
Revenue	204,644	255,174	52,924
Net loss	(854,911)	(774,527)	(288,145)
Basic and diluted net loss per share	(0.021)	(0.022)	(0.010)
Total assets	24,024,439	26,831,615	12,736,957
Dividend per share	N/A	N/A	N/A

Summary of quarterly results

			2009				2008	2007
	September	June	March	December	September	June	March	December
	$	$	$	$	$	$	$	$
Revenue	46,759	66,186	27,921	63,778	129,439	44,908	37,479	43,349
Net earnings (net loss)	386,447	(135,103)	(456,584)	(649,671)	(2,193,065)	1,487,502	(107,581)	38,617
Net earnings (net loss) per share								
Basic	0.0095	(0.0033)	(0.0112)	(0.0159)	(0.0623)	0.0448	(0.0035)	0.0013
Diluted	0.0073	(0.0033)	(0.0112)	(0.0159)	(0.0623)	0.0399	(0.0035)	0.001

The revenue consists mainly of interest earned for each of the quarters. General and administrative expenses are relatively stable from one quarter to another. The main changes in quarterly losses or profits are explained as follows:

2007 – December

Unrealized gain of $110,000 on a long-term investment recorded.

2008 – June

Unrealized gain of $1,590,000 on a long-term investment recorded.

2008 – September

Stock-based compensation of $461,325 and an unrealized loss of $1,380,000 on an investment recorded.

2009 – March

Capital tax of $164,124 for fiscal years 2006, 2007, and 2008, which the Company disputed through a notice of objection to Revenu Québec and an unrealized loss of $180,000 on an investment recorded.

2009 – September

Unrealized gain of $200,000 on the investment and future income taxes of $542,000 recorded.

Related-party transactions

Transactions were made with two companies (Géominex Inc. and Gestion Lestrois Inc.) whose main officer, holding a minority interest, is also a director of the Company:

	2009 $	2008 $
Salaries and fringe benefits	–	(16,445)
Travel	–	(1,069)
Maintenance and office supplies	–	(25,319)
Deferred exploration expenses	76,068	676,529
Promotion and entertainment	–	(1,045)
Telecommunications	–	(12,970)
Other expenses	8,668	(76,408)
Write-off of a receivable	62,205	–

As at September 30, 2009, $57,852 is due from these companies (2008 – $54,696).

Transactions were carried out with a director who acts as a consultant for the Company under the corporate name SEISServ:

	2009 $	2008 $
Deferred exploration expenses	47,421	66,314

The balance due to this director as at September 30, 2009, is $1,195 (2008 – $18,492).

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

	2009 $	2008 $
Deferred exploration expenses	64,000	–
Office supplies	3,632	3,600
Salaries and fringe benefits	276,724	245,156
Telecommunications	6,086	6,505

The balance due to this company as at September 30, 2009, is $16,179 (2008 – $63,039).

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

Fourth quarter

The fourth quarter closed with a profit of $386,447 ($0.0095 per share). Income for the quarter is $46,759, and general and administrative expenses total $407,529. The profit is explained by the unrealized gain of $209,200 on the investment and the recording of future income taxes of $542,000.

New accounting standards

In October 2008, the Company adopted the following new sections of the Canadian Institute of Chartered Accountants (CICA) Handbook:

i) Section 3064, "Goodwill and Intangible Assets," replaces Section 3062, "Goodwill and Other Intangible Assets," and Section 3450, "Research and Development Costs." It establishes standards for the recognition, measurement, and presentation of goodwill and intangible assets. Section 1000, "Financial Statement Concepts," was also amended to be consistent with the new section.

ii) Section 1400, "General Standards of Financial Statement Presentation," establishes the conditions for measuring and presenting the Company's ability to continue as a going concern.

The Company adopted EIC-173 and EIC-174:

i) On January 20, 2009, the Emerging Issues Committee (EIC) of the CICA adopted Abstract No. 173 entitled "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" (EIC-173), which clarifies that the credit risk specific to the Company and the credit risk of the counterparty should be considered in the determination of the fair value of the financial assets and financial liabilities. EIC-173 must be applied retroactively, without restatement of the financial statements of prior periods, to all financial assets and financial liabilities valued at their fair value in the interim and annual financial statements of the periods ending on or after the issuance date of this abstract.

ii) On March 27, 2009, the EIC of the CICA adopted Abstract No. 174 entitled "Mining Exploration Costs," which specifies the fact that the company that initially recorded its exploration expenses in the assets is required, during the accounting period in question and the following periods, to determine whether the value of the exploration expenses recorded in assets must be reduced. EIC-174 must be applied to financial statements published after the release date of the abstract.

The adoption of these new sections and these new EICs had no significant impact on the Company's financial statements.

Future accounting standards

i) Section 1582, "Business Combinations," replaces Section 1581, "Business Combinations." It establishes standards for the recognition of a business combination and is the Canadian equivalent of IFRS 3 (revised), "Business Combinations." The section will be applied prospectively to business combinations with an acquisition date for the Company on or after October 1, 2011. Early application is acceptable.

ii) Section 1601, "Consolidated Financial Statements," and Section 1602, "Non-controlling Interests," replace Section 1600, "Consolidated Financial Statements." Section 1601 defines standards for preparing consolidated financial statements. Section 1602 defines standards for the recognition of non-controlling interests in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are equivalent to the corresponding provisions of IAS 27 (revised), "Consolidated and Separate Financial Statements." The sections will apply to interim and annual consolidated financial statements for fiscal years beginning on or after October 1, 2011. However, their early adoption is permitted from the start of a fiscal year.

iii) 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. For the Company, the transition to the IFRS will apply to interim and financial statements for fiscal years opened on or after October 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.

Its conversion project will be carried out in four stages: initial assessment, detailed assessment, design, and implementation. During fiscal years 2008 and 2009, the Company began the first stage, the initial assessment, which involves analyzing the main differences existing between GAAP and IFRS, as well as an examination of the possible options with regard to adoption.

The Company began the execution of the detailed evaluation and design stages. More specifically, in the detailed assessment stage, the Company will assess the impacts of the IFRS on accounting and financial reporting on systems and processes, business, employees, and others. This stage will determine the consequences of the change. Then, during the design stage, the Company will start the review of the accounting processes and systems that will be affected by the differences identified through analyses performed during the previous stages.

Finally, the implementation, planned for fiscal year 2011, will involve establishing the changes in policies, procedures, and practices as well as in IT systems.

Financial instruments

Credit risk

Financial instruments that potentially subject the Company to credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company's cash and cash equivalents are held with or issued by first-class financial institutions. Receivables mostly represent sums due from the federal and provincial government and from 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.

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, price of oil, and the competitive nature of the industry.

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

Market risk

Market risk is the risk that the fair value of the investment held for trading would fluctuate due to market price variations.

Additional 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 Web site at: **www.petroliagaz.com**.

b) Rule 51-102 Section 5.3

The deferred exploration expenses for the fiscal year ended September 30, 2009, are detailed as follows:

	Geology $	Geophysical surveys $	Drilling $	Options $	Total $
Anticosti	211,066	30,619	5,536	507	247,728
Gastonguay	13,962	168	303	–	14,433
Gaspésia–Edgar–Marcel-Tremblay	59,403	40,492	2,498	–	102,393
Gaspé	89,912	808	6,812	5,432	102,964
Bourque project	102,069	561,230	27,349	–	690,648
Haldimand project	320,359	1,551,682	1,669,712	–	3,541,753
Tar Point project	12,371	2,508	162,261	–	177,140
Dalhousie	82,821	871,007	16,171	1,186	971,185
	891,963	3,058,514	1,890,642	7,125	5,848,244

c) Rule 51-102 Section 5.4

Information on shares issued, warrants, and stock options as at December 15, 2009

Common shares: 48,874,787 common shares have been issued and are outstanding.

Warrants: Warrants can be exercised as follows:

- 3,333,332 shares at a price of $1.50 per share until December 6, 2010
- 1,750,000 shares at a minimum price of $1.00 per share until October 10, 2012
- 3,000,000 shares at a minimum price of $1.00 per share until January 10, 2013
- 2,163,161 shares at a minimum price of $1.30 per share until December 4, 2011

Stock options outstanding: The stock options granted to its directors, members of senior management, employees, and service providers are 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
- 50,000 options exercisable at a price of $0.74 per share until May 21, 2012
- 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
- 577,500 options exercisable at a price of $1.25 per share until July 7, 2013
- 180,000 options exercisable at a price of $0.74 per share until May 21, 2014

Management's responsibility for financial information

Pétrolia's financial statements are the responsibility of Management and were approved by the board of directors under the recommendation of the audit committee. The financial statements were prepared by Management in accordance with Canadian generally accepted accounting principles. These financial statements were audited by the Company's auditors. The financial statements include certain 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 faithfully in all material respects.

Rimouski, December 15, 2009

On behalf of the Board

André Proulx
President

Auditors' report to the shareholders of Pétrolia Inc.

We have audited the balance sheets of Pétrolia Inc. as at September 30, 2009 and 2008, and the statements of income and comprehensive income, shareholders' equity, deferred exploration expenses and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Mallette[1]
LLP
Chartered Accountants
Rimouski, Canada
December 8, 2009

[1] CA auditor permit No. 8832

Balance sheet

As at September 30	2009 $	2008 $
ASSETS		
Current assets		
Cash and cash equivalents	4,833,084	11,275,057
Receivables (Note 7)	2,029,860	3,027,612
Prepaid expenses	356,068	72,344
Investments cashable during the next fiscal year (Note 8)	380,000	–
	7,599,012	14,375,013
Equity Investments (Note 8)	595,200	1,040,000
Fixed assets (Note 9)	150,530	194,563
Oil and gas properties (Note 10)	2,333,394	2,090,152
Deferred exploration expenses (Note 11)	13,346,303	9,131,887
	24,024,439	26,831,615
LIABILITIES		
Current liabilities		
Payables and accrued expenses	1,661,967	2,963,760
Future taxes (Note 13)	913,549	1,673,746
	2,575,516	4,637,506
SHAREHOLDERS' EQUITY		
Capital stock (Note 12)	21,674,783	21,674,783
Contributed surplus – Stock options	1,957,120	1,877,170
Contributed surplus – Expired stock options	225,721	195,946
Deficit	(2,408,701)	(1,553,790)
	21,448,923	22,194,109
	24,024,439	26,831,615

Commitments and contingencies (Notes 14 and 15)

On behalf of the Board

André Proulx, Director

Vincent Causse, Director

Statement of income and comprehensive income

Fiscal year ended September 30	2009 $	2008 $
REVENUE		
Project management income	11,706	26,736
Interest income	175,238	224,714
Gain on disposal of rolling stock	–	3,724
Gain on disposal of shares	17,700	–
	204,644	255,174
ADMINISTRATIVE EXPENSES (APPENDIX A)	1,378,952	1,259,167
GENERAL EXPENSES (APPENDIX B)	–	–
	1,378,952	1,259,167
LOSS BEFORE OTHER ITEM AND INCOME TAXES	(1,174,308)	(1,003,993)
OTHER ITEM		
Unrealized gain (loss) on financial assets designated as being held for trading	(440,800)	520,000
LOSS BEFORE INCOME TAXES	(1,615,108)	(483,993)
Future income taxes (Note 13)	(760,197)	290,534
NET LOSS AND COMPREHENSIVE INCOME	(854,911)	(774,527)
BASIC AND DILUTED NET LOSS PER SHARE	(0.021)	(0.022)

Statement of shareholders' equity

	Capital stock		Contributed surplus			
	Shares	$	Stock options $	Expired stock options $	Deficit $	**Total** $
Balance as at September 30, 2007	29,208,252	7,728,400	636,968	195,901	(779,263)	7,782,006
Issued during the period						
Cash	11,416,665	14,749,999	–	–	–	14,749,999
Broker warrants exercised	201,802	106,716	(30,031)	–	–	76,685
Stock options exercised	87,500	56,692	(21,692)	–	–	35,000
Share issuance costs	–	(967,024)	–	–	–	(967,024)
Other activities						
Stock-based compensation costs	–	–	1,291,970	–	–	1,291,970
Expired broker warrants	–	–	(45)	45	–	–
Net loss	–	–	–	–	(774,527)	(774,527)
Balance as at September 30, 2008	40,914,219	21,674,783	1,877,170	195,946	(1,553,790)	22,194,109
Other activities						
Stock-based compensation costs	–	–	109,725	–	–	109,725
Expired stock options	–	–	(29,775)	29,775	–	–
Net loss	–	–	–	–	(854,911)	(854,911)
Balance as at September 30, 2009	40,914,219	21,674,783	1,957,120	225,721	(2,408,701)	21,448,923

Statement of deferred exploration expenses

Fiscal year ended September 30	**2009**	2008
	$	$
EXPLORATION EXPENSES		
Analysis	–	7,582
Drilling	1,890,642	162,211
Geology	891 963	1,008,371
Geophysical surveys	3,058,514	4,239,167
General exploration expenses	–	76,724
Stock-based compensation costs	7,125	228,225
	5,848,244	5,722,280
DEDUCTIONS		
Exploration subsidies	1,743,180	942,351
Partner contributions	(109,352)	2,714,219
	1,633,828	3,656,570
NET INCREASE IN EXPLORATION EXPENSES FOR THE FISCAL YEAR	4,214,416	2,065,710
BALANCE, BEGINNING OF PERIOD	9,131,887	7,066,177
BALANCE, END OF PERIOD	13,346,303	9,131,887

Statement of cash flows

Fiscal year ended September 30	2009 $	2008 $
OPERATING ACTIVITIES		
Net loss	(854,911)	(774,527)
Items not affecting cash		
Stock-based compensation costs	102,600	668,775
Depreciation of fixed assets	60,910	33,513
Gain on disposal of assets	(17,700)	(3,724)
Future income taxes	(760,197)	290,534
Unrealized loss (gain) on financial assets held for trading	440,800	(520,000)
	(1,028,498)	(305,429)
Net change in non-cash items related to operations	285,605	(156,689)
	(742,893)	(462,118)
FINANCING ACTIVITIES		
Acquisition of financing	–	37,889
Capital stock issuance	–	14,861,684
Share issuance costs	–	(795,973)
Repayment of long-term debt	–	(69,733)
	–	14,033,867
INVESTING ACTIVITIES		
Disposal of an investment	21,700	45,000
Acquisition of investments	(380,000)	–
Acquisition of fixed assets	(16,877)	(167,060)
Disposal of fixed assets	–	4,906
Acquisition of oil and gas properties	(243,242)	(479,438)
Increase in deferred exploration expenses net of deductions	(5,080,661)	(1,748,573)
	(5,699,080)	(2,345,165)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,441,973)	11,226,584
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	11,275,057	48,473
CASH AND CASH EQUIVALENTS, END OF PERIOD	4,833,084	11,275,057
CASH AND CASH EQUIVALENTS ARE MADE UP OF THE FOLLOWING:		
Cash	115,270	1,975,357
Money market fund	4,717,814	9,299,700
	4,833,084	11,275,057

Additional cash flow information

(Note 17)

Notes to financial statements September 30, 2009

1 INSTRUMENT OF INCORPORATION AND NATURE OF ACTIVITIES

The Company, incorporated under part IA of the Quebec Companies Act, is an oil and gas exploration company. Its stock has been listed on the TSX Venture Exchange since February 16, 2005, under the symbol PEA.

The oil and gas properties held by the Company are in the exploration stage. The Company's long-term profitability is related in part to the costs and success of the exploration and subsequent development programs. The Company has not yet determined whether its properties hold economically viable reserves.

2 FINANCIAL STATEMENT PRESENTATION

These financial statements were prepared by the Company in accordance with Canadian generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with the GAAP requires Management to adopt estimates and assumptions that affect any recorded assets and liability amount as at the date of the financial statements as well as the recorded income and expense amounts during the reporting periods. Actual results could differ from these estimates. All amounts are expressed in Canadian dollars.

Certain comparative figures were reclassified to conform to the presentation adopted during fiscal year 2009.

3 SIGNIFICANT ACCOUNTING POLICIES

New accounting standards

In October 2008, the Company adopted the following new sections of the Canadian Institute of Chartered Accountants (CICA) Handbook:

i) Section 3064, "Goodwill and Intangible Assets," replaces Section 3062, "Goodwill and Other Intangible Assets," and Section 3450, "Research and Development Costs." It establishes standards for the recognition, measurement, and presentation of goodwill and intangible assets. Section 1000, "Financial Statement Concepts," was also amended to be consistent with the new section.

ii) Section 1400, "General Standards of Financial Statement Presentation," establishes the conditions for measuring and presenting the Company's ability to continue as a going concern.

The Company adopted EIC-173 and EIC-174:

i) On January 20, 2009, the Emerging Issues Committee (EIC) of the CICA adopted Abstract No. 173 entitled "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" (EIC-173), which clarifies that the credit risk specific to the Company and the credit risk of the counterparty should be considered in the determination of the fair value of the financial assets and financial liabilities. EIC-173 must be applied retroactively, without restatement of the financial statements of prior periods, to all financial assets and financial liabilities valued at their fair value in the interim and annual financial statements of the periods ending on or after the issuance date of this abstract.

ii) On March 27, 2009, the EIC of the CICA adopted Abstract No. 174 entitled "Mining Exploration Costs," which specifies the fact that the company that initially recorded its exploration expenses in the assets is required, during the accounting period in question and the following periods, to determine whether the value of the exploration expenses recorded in assets must be reduced. EIC-174 must be applied to financial statements published after the release date of the abstract.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

The adoption of these new sections and these new EICs had no significant impact on the Company's financial statements.

Recording of income

Income from investments is recorded when it is earned. Project income is recorded when the exploration work is carried out.

Conversion of currencies

Monetary assets and liabilities are converted at the exchange rate in force as at the date of the balance sheet. Income and expenses denominated in foreign currencies are recorded at the exchange rate in force as at the date of the transaction. Exchange gains and losses are recorded in the earnings.

Fixed assets

Fixed assets are recorded at cost. Depreciation is calculated based on their useful life according to the following methods and annual rates:

	Methods	Rates
Leasehold improvements	Straight line	3 years
Office equipment	Declining balance	20%
Computer and rolling stock	Declining balance	30%

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the fiscal year. Actual results could differ from those estimates.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Oil and gas properties and deferred exploration expenses

The Company follows the full-cost accounting method, according to which costs related to the acquisition, exploration, and development of properties, less government subsidies, are recorded by property until the start of commercial production. These costs include geological and geophysical expenses, the cost of drilling productive and non-productive wells, the portion of general expenses directly attributable to these activities, and estimated expenses for abandonment of installations. If economically profitable hydrocarbon reserves are developed, the capitalized costs of the properties in question are transferred to fixed assets and amortized based on the units of production of the fiscal year based on the likely and proven crude oil and natural gas reserves. If it is established that the capitalized acquisition, exploration, and development costs are not recoverable according to the estimated lifetime of the property or if the project is abandoned, the project is written down to its net realizable value.

The recovery of amounts indicated under the properties section and related deferred exploration expenses depends on the discovery of economically recoverable reserves, the Company's ability to obtain the financing required to see development through to completion, and the established profitable production or proceeds from disposal of these assets. The amounts recorded for oil and gas properties and deferred exploration expenses do not necessarily represent the present or future value. Lastly, its activities are subject to governmental regulation.

Site restoration costs

A provision for restoration costs, net of any expected recovery, is recorded if such costs are reasonably determinable. This provision is calculated on estimated costs according to the expected method and the extent of environmental remedial work, in accordance with legislative requirements, industry practices, current technology, and the potential future use of the site. A provision is established when Management approves the sale or the closing of an oil or gas property and is recorded at its fair value in consideration of the increased cost of the assets in question.

Joint activities

The Company conducts certain oil and gas resource exploration activities jointly with third parties. These financial statements only take into account the Company's proportional participation in these activities.

Government subsidies and partner contributions

Exploration tax credits, exploration expense grants, and partner contributions are recorded as a reduction in exploration expenses. Subsidies applied to operations are recorded as revenues in the statement of income.

In the event of any variances between the government subsidies claimed by the Company and the amounts granted by the tax authorities, the resulting gain or loss will be recorded in the fiscal year in which these variances are noted.

Income taxes

The Company uses the tax liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined according to differences between the book value and tax value of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws as of the date of the financial statements for the fiscal years in which the temporary differences are expected to be recovered.

Under the provisions of tax legislation, deductions for resource expenses related to exploration and development activities and financed by flow-through shares were forfeited in favour of investors. According to the tax liability method related to the recording of income taxes, future taxes related to differences occurring at the time of the forfeiture were recorded with a corresponding charge to share issuance expenses.

Basic and diluted net loss per share

Net loss per share is calculated according to the weighted average of outstanding shares during the reporting period. The diluted net loss per share is similar to the net loss per share, since the exercising of warrants and stock options would have the effect of reducing the loss per share.

Stock-based compensation

The Company accounts for the allocation of stock options granted under the Stock Option plan and the allocations of broker warrants as part of certain funding on a fair value basis. Stock options granted to salaried and non-salaried persons and broker warrants are accounted for on the basis of their fair value according to the Black-Scholes option pricing model.

When options and broker warrants are granted, the compensation expenses are applied to the activity in question and offset in contributed surplus.

Any consideration paid by the participants when options and broker warrants are exercised, as well as the contributed surplus created when options and broker warrants are allocated, are credited to capital stock.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital stock

Capital stock issued as non-monetary consideration is accounted for at the fair market value of shares to be issued by the Company and depends on the stock price as at the date on which the stock issuance agreement was entered into.

Cash and cash equivalents

The Company's cash and cash equivalents are made up of cash and short-term investments that can be converted into cash at any time.

4 FUTURE ACCOUNTING POLICIES

i) Section 1582, "Business Combinations," replaces Section 1581, "Business Combinations." It establishes standards for the recognition of a business combination and is the Canadian equivalent of IFRS 3 (revised), "Business Combinations." The section will be applied prospectively to business combinations with an acquisition date for the Company on or after October 1, 2011. Early application is acceptable.

ii) Section 1601, "Consolidated Financial Statements," and Section 1602, "Non-controlling Interests," replace Section 1600, "Consolidated Financial Statements." Section 1601 defines standards for preparing consolidated financial statements. Section 1602 defines standards for the recognition of non-controlling interests in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are equivalent to the corresponding provisions of IAS 27 (revised), "Consolidated and Separate Financial Statements." For the Company, the sections will apply to interim and annual consolidated financial statements for fiscal years beginning on or after October 1, 2011. However, their early adoption is permitted from the start of a fiscal year.

iii) 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. For the Company, the transition to the IFRS will apply to interim and financial statements for fiscal years opened on or after October 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.

The Company is currently assessing the impact of adopting these new standards on the financial statements.

5 FINANCIAL INSTRUMENT INFORMATION TO BE DISCLOSED

Fair value

The Company holds the following financial instruments:

i) Instruments held for trading designated as held for trading
Cash and cash equivalents as well as investments are recorded at fair value at each balance sheet reporting date. Any variation in the fair value is presented in net earnings in the period during which these variations occur. The fair value of equity instruments is based on the market price for the investments in question.

ii) Loans and receivables
The book value of receivables is close to their fair value because of their short-term maturity. After their initial fair value valuation, they are valued at the amortized cost using the effective interest method, which generally corresponds to cost.

iii) Other financial liabilities
The book value of payables and accrued expenses is close to their fair value because of their short-term maturity. After their initial fair value valuation, they are valued at the amortized cost using the effective interest method, which generally corresponds to cost.

5 FINANCIAL INSTRUMENT INFORMATION TO BE DISCLOSED (continued)

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, 2009, the date of the balance sheet.

Credit risk

Financial instruments that potentially subject the Company to credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company's cash and cash equivalents are held with or issued by first-class financial institutions. Receivables mostly represent sums due from the federal and provincial government and from 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 Company's liquid resources, 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.

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:

- Shareholders' equity
- 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 or adjust its capital structure, the Company, being in its early stages, is required to issue new shares.

The Company's capital management objectives, policies, and procedures have not changed since October 1, 2008.

The Company is currently meeting all of its financial commitments.

7 RECEIVABLES

	2009	2008
	$	$
Partners	68,317	1,687,499
Consumer tax credits	157,005	258,528
Tax credits receivable	1,743,180	942,351
Interest receivable	1,226	–
Others	60,132	139,234
	2,029,860	3,027,612

The tax credits refer to requests that have not yet been examined by the tax authorities.

8 INVESTMENTS

	2009	2008
	$	$
Guaranteed investment certificates, 0.3% due in July 2010	380,000	–
Gastem Inc. 960,000 common shares (2008 – 1,000,000) (cost of shares: $96,000; 2008 – $100,000)	595,200	1,040,000
	975,200	1,040,000
Portion cashable during the next fiscal year	380,000	–
	595,200	1,040,000

9 FIXED ASSETS

			2009	2008
			$	$
	Cost	Accumulated depreciation	Net value	Net value
Leasehold improvements	18,387	11,334	7,053	13,182
Computer and office equipment	90,049	36,374	53,675	53,092
Rolling stock	170,302	80,500	89,802	128,289
	278,738	128,208	150,530	194,563

10 OIL AND GAS PROPERTIES

	2009	2008
	$	$
Quebec		
Anticosti	241,006	205,793
Gastonguay	612,595	603,962
Gaspésia–Edgar–Marcel-Tremblay	360,897	279,406
Gaspé	979,120	969,567
New Brunswick		
Dalhousie	139,776	31,424
	2,333,394	2,090,152

10 OIL AND GAS PROPERTIES (continued)

Gaspé and Gastonguay properties

On May 6, 2008, the Company signed a comprehensive agreement that amended a prior agreement with Junex regarding the Gaspé and Gastonguay properties. Under this agreement, Pétrolia acquired a 100% interest over 6,043 km^2 of these properties, subject to a fee varying from 0.5% to 2.5% of the future hydrocarbon production. Also, under this agreement, Pétrolia and Junex agreed to become 50/50 partners in a block of leases of an area of around 291 km^2 over which Junex acts as operator.

Haldimand project

On this same date, a second agreement set the boundaries of a development area of 9 km2 around the Pétrolia Haldimand No. 1 well over which Pétrolia holds a 45% interest, Junex 45%, and Gastem 10%. Some leases of these properties are subject to fees of 5%. Under an amendment to the original agreement signed on July 22, 2009, Pétrolia became the operator over the entire development area of 9 km2, and it made the commitment to drill a second well on the property before December 31, 2009. Following its decision not to participate in the drilling, Junex's participation was reduced by 9.6%. This modification of interest is subject to a final adjustment, which will be based on the actual costs incurred in carrying out Haldimand No. 2 drilling. Note 18 refers to an agreement entered into with Gastem after the end of the fiscal year.

Bourque project

The Company signed a $20M farming agreement with the oil company Pilatus Energy Canada, which is affiliated with the Company. During the next five years, this company will be able to earn a 70% interest over the four leases of the Bourque project by investing $20M in exploration and development work according to the following terms:

- During the first 18 months, the oil company has completed a $2.5M seismic survey to ensure its right to participate in this agreement.
- During the first three years, it must invest a cumulative amount of $8M in exploration work to earn a 24% participation in the project.
- During the first five years, by investing a cumulative amount of $16M, it will be able to increase its participation to 48% and, by adding an additional $4M for a total of $20M, increase its participation to 70%.

Anticosti property

The Company has acquired all of the rights belonging to Hydro-Quebec on Anticosti Island. In return, a priority fee on future oil production will be paid to Hydro-Quebec. Under this agreement, Pétrolia shares with Corridor Resources Inc. an interest varying between 25% and 50% in 35 exploration leases on the island and acts as operator over most of it.

Saint-Simon project

The Company holds a 10% interest in the Saint-Simon well and the geological structure.

11 DEFERRED EXPLORATION EXPENSES

	September 30 2009 $	Additions $	September 30 2008 $
Quebec			
Anticosti	1,344,024	247,728	1,096,296
Gastonguay	46,502	14,433	32,069
Gaspésia–Edgar–Marcel-Tremblay	3,475,534	102,393	3,373,141
Gaspé	2,875,327	102,964	2,772,363
Bourque project	3,364,231	690,648	2,673,583
Haldimand project	6,331,201	3,541,753	2,789,448
Tar Point No. 1 project	177,140	177,140	–
Others	102,707	–	102,707
New Brunswick			
Dalhousie	1,085,303	971,185	114,118
	18,801,969	5,848,244	12,953,725
Less			
Exploration subsidies and partner contributions			
Anticosti	442,611	86,527	356,084
Gastonguay	10,683	5,051	5,632
Gaspésia–Edgar–Marcel-Tremblay	325,194	35,838	289,356
Gaspé	462,824	34,136	428,688
Bourque project	2,844,231	170,648	2,673,583
Haldimand project	1,301,186	1,239,613	61,573
Tar Point No. 1 project	62,015	62,015	–
Dalhousie	6,922	–	6,922
	5,455,666	1,633,828	3,821,838
	13,346,303	4,214,416	9,131,887

11 DEFERRED EXPLORATION EXPENSES (continued)

	September 30 2008 $	Additions $	September 30 2007 $
Quebec			
Anticosti	1,096,296	1,072,538	23,758
Gastonguay	32,069	11,727	20,342
Gaspésia–Edgar–Marcel-Tremblay	3,373,141	710,046	2,663,095
Gaspé	2,772,363	40,267	2,732,096
Bourque project	2,673,583	2,609,397	64,186
Haldimand project	2,789,448	1,183,966	1,605,482
Others	102,707	–	102,707
New Brunswick			
Dalhousie	114,118	94,339	19,779
	12,953,725	5,722,280	7,231,445
Less:			
Exploration subsidies and partner contributions			
Anticosti	356,084	347,769	8,315
Gastonguay	5,632	3,803	1,829
Gaspésia–Edgar–Marcel-Tremblay	289,356	223,361	65,995
Gaspé	428,688	390,788	37,900
Bourque project	2,673,583	2,651,118	22,465
Haldimand project	61,573	39,731	21,842
Dalhousie	6,922	–	6,922
	3,821,838	3,656,570	165,268
	9,131,887	2,065,710	7,066,177

12 CAPITAL STOCK

Authorized

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

Issued

40,914,219 common shares.

Stock-based compensation costs

The Company has a Stock Option plan that allows it to grant a maximum of 4,090,000 options to 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.

During the fiscal year, the Company granted stock options. The fair value of each allocated option was calculated using the Black-Scholes option pricing model and using the following assumptions:

	Stock options 2009			Stock options 2008	Broker warrants 2008
	May	July	March	February	June
Risk-free interest rate	2.25%	4.75%	5.75%	5.75%	4.75%
Expected volatility	103%	90%	80%	80%	90%
Lifetime granted (years)	3 & 5	5	5	5	1.5
Rate of return of shares	Nil	Nil	Nil	Nil	Nil

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

	2009 $	2008 $
Statement of income	102,600	668,775
Deferred exploration expenses	7,125	228,225
Share issuance costs	–	394,970
Total	109,725	1,291,970

12 CAPITAL STOCK (continued)

The following table summarizes information about the stock options:

	2009 Number of options outstanding	2009 Weighted average exercise price $	2008 Number of options outstanding	2008 Weighted average exercise price $
Outstanding and exercisable, beginning of year	3,907,500	0.58	2,645,000	0.41
Granted	230,000	0.74	1,350,000	0.66
Exercised	–	–	(87,500)	0.40
Expired	(47,500)	0.91	–	–
Outstanding and exercisable, end of year	4,090,000	0.58	3,907,500	0.58

Weighted average of the fair values as at the grant date:

	2009 $	2008 $
Stock options	0.74	0.66
Broker warrants	–	0.93

As at September 30, 2009, the stock options granted as part of the Plan are allocated as follows:

Weighted average exercise price $	Shares	Weighted average remaining years	Expiration date
0.40	270,000	0.5	March 15, 2010
0.40	1,075,000	1.3	February 3, 2011
0.58	150,000	1.6	May 10, 2011
0.74	50,000	2.7	May 21, 2012
0.40	1,037,500	2.8	June 21, 2012
0.60	600,000	3.3	February 12, 2013
0.60	150,000	3.4	March 3, 2013
1.25	577,500	3.8	July 7, 2013
0.74	180,000	4.7	May 21, 2014

Warrants

Outstanding warrants can be exercised as follows:

Exercise price $	Shares	Expiration date
1.50	423,333	December 6, 2009
1.50	3,333,332	December 6, 2010 (Note 18)
1.00	1,750,000	October 10, 2012
1.00	3,000,000	January 10, 2013

13 FUTURE INCOME TAXES

The Company's effective tax rate differs from the combined statutory rate (federal and provincial). This difference is attributable to the following items:

	2009	2008
	$	$
Loss before income taxes	(1,615,108)	(483,993)
Income tax at combined statutory rate: 30.9%	(499,069)	(149,554)
Stock-based compensation costs	31,703	206,651
Revaluation of future tax debits and credits	(382,050)	300,877
Non-deductible expenses and others	21,115	12,900
Unrealized capital loss (capital gain)	68,104	(80,340)
	(760,197)	290,534

Future tax debits and credits come from differences between the tax value and the book value of the following items:

	2009	2008
	$	$
Future tax debit		
Deferred losses	(1,114,117)	(636,199)
Share issuance costs	(162,775)	(256,868)
Others	(29,693)	(12,542)
	(1,306,585)	(905,609)
Future tax credits		
Investment	76,508	145,230
Properties	30,871	30,871
Deferred exploration expenses	2,112,755	2,403,254
	2,220,134	2,579,355
Net future tax credits	913,549	1,673,746

As at September 30, 2009, the tax losses likely to reduce future taxes and having tax benefits that have been recorded are approximately $3,613,958 on the federal level and $3,012,187 on the provincial level. The Company may use the tax benefit resulting from the carry-over of these losses before:

	Federal	Provincial
	$	$
2010	3,180	3,180
2014	8,618	6,776
2015	351,319	287,294
2026	574,450	440,410
2027	648,473	514,153
2028	660,423	524,691
2029	1,367,495	1,235,683

14 COMMITMENTS

Under the terms of exploration leases granted by the Quebec Department of Natural Resources and the New Brunswick Department of Natural Resources, the Company has agreed to pay fees to them in the amount of $839,302 between now and 2013. The minimum payments due during the upcoming fiscal years are as follows:

2010	2011	2012	2013
$217,042	$209,774	$206,243	$206,243

In addition, the Company must perform work on its properties, on a yearly basis, for which the minimum costs vary according to the age of the leases; therefore, they correspond to $0.50 per hectare for the first year of the lease and increase annually by $0.50, ultimately reaching $2.50 per hectare beginning with the fifth year. The minimum work to be initiated is $1,205,925 in 2010, $1,536,322 in 2011, $2,530,897 in 2012, and $2,560,536 in 2013.

The Company has entered into a lease until 2012 for the rental of offices and a house with three companies, with a director of the Company holding a minority interest in one of them. The balance of the commitments under these leases, excluding escalation clauses, is $178,131.

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

2010	2011	2012
$105,151	$69,480	$3,500

15 CONTINGENCIES

Financing

In the past, the Company was financed partially through the issuance of flow-through shares. The last issue date was 2005. The Company has thus fulfilled all of its commitments related to the exploration work to be performed. However, even though the Company took all necessary measures for this purpose, there is no guarantee that all of the funds spent by the Company with regard to these shares will be declared acceptable by the tax authorities in the event that they conduct an audit. The rejection of certain expenses by the tax authorities may then have negative tax consequences for investors.

Guarantee letter

The Company assumes any responsibility resulting from two irrevocable letters of credit in the amount of $380,000 in favour of the Ministry of Natural Resources. These letters of credit are guaranteed by the guaranteed placement certificates for an equivalent amount.

Guarantee

The Company assumes any liability in guaranteeing a lease with a term of five years for $258,342. The lease will expire on May 31, 2014. It is currently impossible to assess the amount that the Company may be called upon to honour following the default of the tenant.

16 RELATED-PARTY TRANSACTIONS

Transactions were made with two companies whose main officer, holding a minority interest, is also a director of Pétrolia Inc.:

	2009 $	2008 $
Salaries and fringe benefits	–	(16,445)
Travel	–	(1,069)
Maintenance and office supplies	–	(25,319)
Deferred exploration expenses	76,068	676,529
Promotion and entertainment	–	(1,045)
Write-off of a receivable	62,205	–
Telecommunications	–	(12,970)
Other expenses	8,668	(76,408)

As at September 30, 2009, $57,852 is due from these companies (2008 – $54,696).

Transactions were carried out with a director who acts as a consultant for the Company:

	2009 $	2008 $
Deferred exploration expenses	47,421	66,314

The balance due to this director as at September 30, 2009, is $1,195 (2008 – $18,492).

The Company made the following transactions with a company with the same chief executive officer:

	2009 $	2008 $
Deferred exploration expenses	64,000	–
Office supplies	3,632	3,600
Salaries and fringe benefits	276,724	245,156
Telecommunications	6,086	6,505

The balance due to this company as at September 30, 2009, is $16,179 (2008 – $63,039).

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

17 ADDITIONAL INFORMATION ABOUT CASH FLOW

Items not affecting cash and equivalents related to financing and investing activities are as follows:

	2009 $	2008 $
Receivables related to deferred exploration expenses	553,727	(2,137,041)
Stock-based compensation related to share issuance costs	–	394,970
Stock-based compensation related to deferred exploration expenses	7,125	228,225
Payables and accrued expenses related to deferred exploration expenses	(1,157,758)	2,258,513
Prepaid expenses related to deferred exploration expenses	(269,339)	(37,509)
Future taxes related to share issuance costs	–	223,919

18 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

On December 4, 2009, the Company closed a private placement of $7,129,910. In exchange, it issued 7,960,568 common shares and 2,163,161 warrants giving the holder the right to purchase a common share at $1.30 per share until December 4, 2011.

The Company reached an agreement with its partner Gastem to acquire all of its interest (10%) in the Haldimand project. This transfer of interest is effective October 1, 2009. The participations of each of the two remaining partners should be as follows: Pétrolia 65% and Junex 35%. The interest modification of 9.6% mentioned in Note 10 is subject to a final adjustment that will be based on the actual costs incurred in drilling Haldimand No. 2.

On November 26, 2009, the TSX Venture Exchange agreed to extend the expiration date of the warrants expiring on December 6, 2009, by one year.

APPENDICES

For the fiscal year ended September 30	**2009** $	2008 $

A- ADMINISTRATIVE EXPENSES

Stock-based compensation costs (Note 12)	102,600	668,775
Salaries and fringe benefits	391,031	261,907
Insurance	49,946	42,114
Travel	67,722	26,296
Capital tax	220,124	–
Maintenance and office supplies	17,937	4,066
Information for shareholders	62,923	54,266
Board of directors expenses	116,687	31,114
Write-off of a receivable	62,206	–
Promotion and entertainment	99,433	60,535
Professional fees	67,332	33,994
Telecommunications	16,246	9,806
Depreciation of fixed assets	37,714	33,513
Other expenses	67,051	32,781
	1,378,952	1,259,167

B- GENERAL EXPENSES

Salaries and fringe benefits	713,174	65,160
Insurance	1,905	-
Travel	16,784	-
Maintenance and office supplies	22,342	-
Training	9,072	-
Professional fees	4,241	-
Telecommunications	8,081	-
Depreciation of fixed assets	23,196	-
Other expenses	86,210	-
Allocation to deferred exploration work	(885,005)	(65,160)
	0	0

BOARD OF DIRECTORS

André Proulx, MA
President and Chief Executive Officer

Vincent Causse, Consultant
Director

Saeed Youssef, Economist
Director

Albert Wildgen, Attorney
Director

Erick Adam, PEng
Director

Myron A. Tétreault, Attorney
Director

Alain Ferland, PEng
Director

Jacques L. Drouin, Manager
Director

AUDITORS

Mallette, LLP
Chartered Accountants
Rimouski

LEGAL COUNSEL

Miller Thomson Pouliot LLP
Benoît Gascon, Attorney
Montréal

LISTED SHARES - TRANSFERT AGENT

Computershare Trust Company of Canada
Montréal

SHARES LISTED

TSX Venture Exchange
Symbol: PEA

CAPITAL STOCK

40,914,219 common shares issued
as at September 30, 2009

HEAD OFFICE

212 De la Cathédrale Avenue
Rimouski, Quebec
G5L 5J2

Tel.: 418-724-0112
Fax: 418-722-0310

info@petroliagaz.com
www.petroliagaz.com

The Annual Meeting of the Shareholders of Pétrolia will be held on Thursday, February 25, 2010 at 10:00 a.m. at the Montréal Marriott Château Champlain (Maisonneuve A room) at 1, Place du Canada, Montréal, Quebec H3B 4C9.

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