



Leader en exploration pétrolière au Québec



SECOND QUARTER

**Unaudited interim
financial statements**

as at March 31, 2011



**UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED
MARCH 31, 2011**

Declaration Concerning the Interim Financial Statements

Management has prepared the interim financial statements of Pétrolia Inc., including the balance sheet as at March 31, 2011, as well as the statements of income and comprehensive income, shareholders equity, deferred exploration expenses, and cash flows for the three-month and six-month periods ended on March 31, 2011. No external auditors firm examined or verified these interim financial statements.



BALANCE SHEET

	As at March 31, 2011 \$ (unaudited)	As at September 30, 2010 \$ (audited)
ASSETS		
Current assets		
Cash and cash equivalents	6,112,653	1,949,055
Receivables (Note 3)	3,699,460	2,920,900
Advance on exploration work	68,747	70,372
Inventories	56,840	-
Investments cashable during the next fiscal year	754,331	754,331
	10,692,031	5,694,658
Fixed assets	300,257	213,159
Oil and gas properties (Note 4)	3,070,521	3,852,629
Deferred exploration expenses (Note 5)	22,240,767	21,234,411
	36,303,576	30,994,857
LIABILITIES		
Current liabilities		
Payables and accrued expenses	1,376,247	822,339
Loan (Note 6)	2,243,310	2,243,310
	3,619,557	3,065,649
Future taxes	2,614,392	1,323,583
	6,233,949	4,389,232
SHAREHOLDERS EQUITY		
Capital stock (Note 7)	28,611,568	28,288,874
Contributed surplus – Stock options	1,228,937	1,300,615
Contributed surplus – Expired stock options	903,797	783,366
Deficit	(674,675)	(3,767,230)
	30,069,627	26,605,625
	36,303,576	30,994,857

On behalf of the Board

(signed)

Director

(signed)

Director

Pétrolia Inc.

(Oil and gas exploration company)

**STATEMENT OF INCOME AND COMPREHENSIVE INCOME (unaudited)**

	Periods ended March 31			
	2011	2010	2011	2010
	(three-month)	(three-month)	(six-month)	(six-month)
	\$	\$	\$	\$
REVENUE				
Project income	-	-	-	1,781
Interest income	45,386	6,646	51,908	11,489
	45,387	6,646	51,909	13,270
OPERATING EXPENSES				
Administrative expenses (Appendix A)	552,869	571,512	1,055,001	874,920
Operating expenses (Appendix B)	-	-	-	-
	552,869	571,512	1,055,001	874,920
LOSS BEFORE OTHER ITEMS AND INCOME TAXES	(507,483)	(564,866)	(1,003,093)	(861,650)
OTHER ITEMS				
Gain on disposal of interest in certain licenses (net of tax)	-	-	3,856,704	-
Gain on disposal of shares				
Unrealized loss on financial assets held for trading	-	44,434	-	439,597
EARNINGS (LOSS) BEFORE INCOME TAXES	(507,483)	(561,132)	2,853,611	(921,253)
Future income taxes	(122,637)	(158,440)	(238,944)	(127,295)
NET EARNINGS (NET LOSS) AND COMPREHENSIVE INCOME	(384,846)	(402,692)	3,092,555	(793,958)
BASIC NET EARNINGS (NET LOSS) PER SHARE	(0.008)	(0.0092)	0.062	(0.018)
DILUTED NET EARNINGS (NET LOSS) PER SHARE	(0.008)	(0.0092)	0.056	(0.018)

Pétrolia Inc.
(Oil and gas exploration company)



STATEMENT OF SHAREHOLDERS EQUITY

	Capital stock		Contributed surplus		Deficit	Total
	Number	\$	Stock options	Expired stock options		
			\$	\$		
Audited balance as at September 30, 2009	40,914,219	21,674,783	1,957,120	225,721	(2,408,701)	21,448,923
Issued during the period						
Cash	7,960,568	7,129,907	-	-	-	7,129,910
Stock options exercised	1,192,500	806,585	(289,585)	-	-	517,000
Share issuance costs	-	(1,510,451)	-	-	-	(1,510,451)
Other activities						
Stock-based compensation	-	-	183,600	-	-	183,600
Expired stock options	-	-	(162,675)	162,675	-	-
Expired warrants	-	-	(394,970)	394,970	-	-
Net loss	-	-	-	-	(793,958)	(793,958)
Unaudited balance as at March 31, 2010	50,067,287	28,100,827	1,293,490	783,366	(3,202,659)	26,975,024
Audited balance as at September 30, 2010	50,067,287	28,288,874	1,300,615	783,366	(3,767,230)	26,605,625
Issued during the period						
Debt retirement	75,000	33,750	-	-	-	33,750
Stock options exercised	362,500	289,196	(105,447)	-	-	183,749
Share issuance costs	-	(252)	-	-	-	(252)
Other activities						
Stock-based compensation	-	-	154,200	-	-	154,200
Expired stock options	-	-	(120,431)	120,431	-	-
Net earnings	-	-	-	-	3,092,555	3,092,555
Unaudited balance as at March 31, 2011	50,504,787	28,611,568	1,228,937	903,797	(674,675)	30,069,627

**Pétrolia Inc.**

(Oil and gas exploration company)

STATEMENT OF DEFERRED EXPLORATION EXPENSES (unaudited)

	Periods ended March 31			
	2011	2010	2011	2010
	(three-month)	(three-month)	(six-month)	(six-month)
	\$	\$	\$	\$
EXPLORATION EXPENSES				
Analyses	1,028	-	1,168	-
Evaluation of oil reserves	84,035	-	134,313	-
Drilling	622,935	2,249,945	945,855	6,591,570
General exploration expenses	22,447	-	102,242	8,690
Geology	107,927	161,883	258,974	266,496
Geophysical survey	135,308	38,988	183,502	135,475
Completion	3,936	-	57,286	-
Stock-based compensation	-	-	34,200	-
	977,616	2,450,816	1,717,540	7,002,231
DEDUCTIONS				
Income from evaluation of oil reserves	-	-	44,221	10,030
Exploration subsidies	218,991	370,226	348,543	1,020,841
Partner contributions	318,420	-	318,420	178,061
	537,411	370,226	711,184	1,208,932
INCREASE IN EXPLORATION EXPENSES FOR THE PERIOD				
	440,205	2,080,590	1,006,356	5,793,299
BALANCE, BEGINNING OF PERIOD	21,800,562	17,059,012	21,234,411	13,346,303
BALANCE, END OF PERIOD	22,240,767	19,139,602	22,240,767	19,139,602

Pétrolia Inc.**(Oil and gas exploration company)****STATEMENT OF CASH FLOWS (unaudited)**

	Periods ended March 31			
	2011	2010	2011	2010
	(three-month)	(three-month)	(six-month)	(six-month)
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net earnings (Net loss)	(384,846)	(402,692)	3,092,555	(793,958)
Items not affecting cash				
Depreciation of fixed assets	15,939	20,477	30,783	33,540
Future income taxes	(122,637)	(158,440)	(238,944)	(127,295)
Stock-based compensation	71,400	183,600	120,000	183,600
Gain on disposal of interest in certain licenses (net of taxes)	-	-	(3,856,703)	-
Gain on disposal of shares	-	(44,434)	-	(439,597)
Unrealized loss on financial assets held for trading	-	40,700	-	499,200
	(420,144)	(360,789)	(852,309)	(634,480)
Net change in non-cash operating items	(758,114)	(1,290,400)	(3,654)	(181,080)
	(1,178,258)	(1,651,189)	(855,963)	(815,560)
FINANCING ACTIVITIES				
Capital stock issuance	217,499	415,825	217,499	7,646,910
Share issuance costs	(252)	-	(252)	(478,144)
	217,247	415,825	217,247	7,168,766
INVESTING ACTIVITIES				
Disposal of shares	-	55,435	-	535,597
Acquisition of fixed assets	(93,954)	(53,895)	(98,100)	(116,727)
Disposal of interest in certain licenses	-	-	6,690,000	-
Expenses for disposal of interest in certain licenses	-	-	(497,482)	-
Acquisition of oil and gas properties	(20,422)	(119,906)	(23,952)	(676,552)
Increase in deferred exploration expenses net of deductions	(564,075)	(2,283,617)	(1,268,152)	(6,839,601)
	(678,451)	(2,401,983)	(4,802,314)	(7,097,283)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,639,462)	(3,637,347)	4,163,598	(744,077)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	7,752,115	7,726,354	1,949,055	4,833,084
CASH AND CASH EQUIVALENTS, END OF PERIOD	6,112,653	4,089,007	6,112,653	4,089,007
CASH AND CASH EQUIVALENTS ARE AS FOLLOWS:				
Cash	308,153	2,838,455	308,153	2,838,455
Guaranteed investment certificates (redeemable)	5,803,500	-	5,803,500	-
Money market funds	1,000	1,250,552	1,000	1,250,552
	6,112,653	4,089,007	6,112,653	4,089,007

Pétrolia Inc.
(Oil and gas exploration company)



ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS
as at March 31, 2011

1. INCORPORATING ACTS AND TYPES OF ACTIVITIES

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

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

2. PRESENTATION OF FINANCIAL STATEMENTS

These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are based on the same accounting policies and methods as those mentioned in Note 2 of the Company's annual financial statements as at September 30, 2010, except for the accounting policy pertaining to inventories which is set out in this section. However, they do not include all of the information that must be provided in annual financial statements. These interim financial statements should therefore be read in parallel with the Company's most recent audited annual financial statements.

Certain comparative figures have been reclassified so as to comply with the presentation adopted during fiscal 2011.

Accounting policy pertaining to inventories

Inventories are valued using the retail price inventory method. This method involves evaluating each of the items at the current sales price and reducing the amounts obtained using the mark-up percentages for each of the categories involved.

Pétrolia Inc.

(Oil and gas exploration company)

ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS as at March 31, 2011

3. RECEIVABLES

	2011	2010
	\$	\$
Partner	318,420	-
Input tax credits	101,810	24,210
Tax credits receivable	3,165,385	2,816,842
Interest receivable	48,680	2,512
Other	65,165	77,336
	<u>3,699,460</u>	<u>2,920,900</u>

4. OIL AND GAS PROPERTIES

	March 31, 2011	September 30, 2010
	\$	\$
	(unaudited)	(audited)
Quebec		
Anticosti	277,578	259,970
Gastonguay	638,497	638,497
Gaspésia-Edgar-Marcel-Tremblay	382,915	382,915
Gaspé ¹	1,624,694	2,427,941
New Brunswick		
Dalhousie	146,837	143,306
	<u>3,070,521</u>	<u>3,852,629</u>

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

Pétrolia Inc.

(Oil and gas exploration company)

ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS as at March 31, 2011

5. DEFERRED EXPLORATION EXPENSES

	September 30, 2010 \$ (audited)	Additions \$ (unaudited)	March 31, 2011 \$ (unaudited)
Quebec			
Anticosti	5,305,277	796,461	6,101,738
Gastonguay	73,473	626	74,099
Gaspésia-Edgar-Marcel-Tremblay	3,531,433	76,737	3,608,170
Gaspé	2,264,806	128,512	2,393,318
Bourque project	3,580,147	11,066	3,591,213
Haldimand project	9,383,853	551,939	9,935,792
Tar Point No. 1 project	4,699,028	137,406	4,836,434
New Brunswick			
Dalhousie	1,111,708	14,793	1,126,501
	29,949,725	1,717,540	31,667,265
Less:			
Exploration subsidies and partner contributions:			
Anticosti	1,930,632	226,107	2,156,739
Gastonguay	18,415	219	18,634
Gaspésia-Edgar-Marcel-Tremblay	341,818	33,013	374,831
Gaspé	483,228	37,413	520,641
Bourque project	3,027,548	3,873	3,031,421
Haldimand project	2,170,519	294,755	2,465,274
Tar Point No. 1 project	626,494	71,583	698,077
Dalhousie	6,922	-	6,922
	8,605,576	666,963	9,272,539
Income from evaluation of oil reserves:			
Gaspé			
Haldimand project	109,738	44,221	153,959
	109,738	44,221	153,959
	21,234,411	1,006,356	22,240,767

Pétrolia Inc.

(Oil and gas exploration company)

ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS as at March 31, 2011

5. DEFERRED EXPLORATION EXPENSES (continued)

	September 30, 2009	Additions	March 31, 2010
	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)
Quebec			
Anticosti	1,344,024	22,436	1,366,460
Gastonguay	46,502	7,440	53,942
Gaspésia-Edgar-Marcel-Tremblay	3,475,534	16,201	3,491,735
Gaspé	2,875,327	56,791	2,932,118
Bourque project	3,364,231	204,613	3,568,844
Haldimand project	6,331,201	2,305,702	8,636,903
Tar Point No. 1 project	177,140	4,370,490	4,547,630
Others	102,707	-	102,707
New Brunswick			
Dalhousie	1,085,303	18,558	1,103,861
	18,801,969	7,002,231	25,804,200
Less:			
Exploration subsidies and partner contributions:			
Anticosti	442,611	3,365	445,976
Gastonguay	10,683	1,116	11,799
Gaspésia-Edgar-Marcel-Tremblay	325,194	2,429	327,623
Gaspé	462,824	8,519	471,343
Bourque project	2,844,231	182,044	3,026,275
Haldimand project	1,301,186	345,856	1,647,042
Tar Point No. 1 project	62,015	655,573	717,588
New Brunswick			
Dalhousie	6,922	-	6,922
	5,455,666	1,198,902	6,654,568
Income from evaluation of oil reserves:			
Gaspé			
Haldimand project	-	10,030	10,030
	-	10,030	10,030
	13,346,303	5,793,299	19,139,602

Pétrolia Inc.

(Oil and gas exploration company)

ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS as at March 31, 2011

6. LOANS

The Company has a bank loan for an authorized amount of \$2,500,000, \$2,243,310 of which is in use as at March 31, 2011, bearing interest at the Caisse centrale Desjardins prime rate plus 1%. The bank loan is secured with a \$2,500,000 mortgage on the universality of the Company's current and future claims and receivables, with a first charge on refundable tax credits and future tax credits, as well as an 80% surety from Investissement Québec. The principal must be repaid during the fiscal year.

7. CAPITAL STOCK

Authorized

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

Issued

50,504,787 common shares

Stock-Based Compensation Costs

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

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

	2011	2010
	February	December
Risk-free interest rate	3%	3%
Expected volatility	94%	94%
Lifetime granted (years)	5	5
Rate of return of shares	Nil	Nil

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

	February 2011	December 2010
	\$	\$
Statement of income	71,4000	48,600
Deferred exploration expenses	-	34,200
Total	71,400	82,800

Pétrolia Inc.

(Oil and gas exploration company)

ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS as at March 31, 2011

7. CAPITAL STOCK (continued)

The following table summarizes information about the stock options:

	2011		2010	
	Number of outstanding	Weighted average exercise price \$	Number of options outstanding	Weighted average exercise price \$
Outstanding and exercisable as at September 30	2,965,000	0.64	4,090,000	0.58
Granted	995,000	0.56	270,000	0.89
Exercised	(362,500)	0.51	(1,192,500)	0.43
Expired	(625,000)	0.40	(202,500)	1.18
Outstanding and exercisable as at March 31	2,972,500	0.61	2,965,000	0.64

As at March 31, 2011, the stock options granted as part of the Plan are allocated as follows:

Weighted average exercise price \$	Number	Expiration date
0.74	37,500	May 21, 2012
0.40	587,500	June 21, 2012
0.60	400,000	February 12, 2013
0.60	150,000	March 3, 2013
1.25	427,500	July 7, 2013
0.74	180,000	May 21, 2014
0.89	270,000	February 25, 2015
0.50	845,000	December 8, 2015
1.31	75,000	February 25, 2016

Warrants

Outstanding warrants can be exercised as follows:

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

Pétrolia Inc.

(Oil and gas exploration company)



ADDITIONAL NOTES TO INTERIM FINANCIAL STATEMENTS as at March 31, 2011

8. COMMITMENTS

During the quarter, the Company committed to a lease until 2016 for the rental of office space. The balance of the commitment subsequent to the lease, excluding escalation clauses for property and other taxes, is \$1,347,169. The minimum payments required over the next five fiscal years are as follows:

2012	2013	2014	2015	2016
259,650	275,247	275,247	275,247	206,435



Pétrolia Inc.

(Oil and gas exploration company)

APPENDICES

Three-month period ended March 31

	2011 (three-month) \$	2010 (three-month) \$	2011 (six-month) \$	2010 (six-months) \$
A- ADMINISTRATIVE EXPENSES				
Stock-based compensation	71,400	183,600	120,000	183,600
Salaries and fringe benefits	188,091	150,493	354,070	272,468
Insurance	12,777	10,267	25,412	24,832
Maintenance and office supplies	8,855	11,220	21,834	18,372
Board of directors expenses	32,093	36,608	59,194	57,533
Information for shareholders	48,590	53,321	61,158	63,413
Office rent	15,544	6,860	32,380	13,692
Promotion and entertainment	21,969	45,491	53,281	89,894
Travel expenses	41,210	-	69,631	29,095
Professional fees	42,095	41,185	105,807	89,422
Capital tax	-	(9,363)	-	(9,363)
Telecommunications	4,232	5,192	11,438	9,778
Depreciation of fixed assets	10,033	15,238	20,042	24,007
Interest on the debt	22,126	-	44,743	-
Other expenses	33,854	21,400	76,011	8,177
	552,869	571,512	1,055,001	874,920
B- OPERATING EXPENSES				
Salaries and fringe benefits	236,493	288,221	466,067	559,516
Stock-based compensation	-	-	34,200	-
Insurance	747	146	1,494	855
Maintenance and office supplies	10,501	4,417	16,885	23,842
Travel expenses	14,897	250	23,565	1,935
Training	3,235	-	5,413	4,797
Office rent	13,131	18,587	26,262	37,173
Telecommunications	2,563	1,858	5,090	4,007
Depreciation of fixed assets	5,907	5,239	10,743	9,533
Other expenses	818	1,892	2,411	75
Allocation to deferred exploration work	(258,533)	(315,741)	(525,138)	(642,040)
Over (under) absorption	(29,759)	(4,869)	(66,992)	307
	-	-	-	-