

**PETROLYMPIC LTD. – "MANAGEMENT'S DISCUSSION AND ANALYSIS"  
YEAR ENDED DECEMBER 31, 2008**

The following Management Discussion and Analysis ("**MD&A**") reviews the financial condition and results of operations of Petrolympic Ltd. ("**Petrolympic**" or the "**Company**") for the year ended December 31, 2008 ("**2008**") and its financial position as at December 31, 2008. The MD&A should be read in conjunction with Petrolympic's audited financial statements and related notes as at December 31, 2008, as well as the audited annual financial statements and related notes as at December 31, 2007.

Petrolympic's financial statements were prepared in accordance with accounting principles generally accepted in Canada ("**Canadian GAAP**"). Unless otherwise stated, all amounts discussed herein are denominated in Canadian dollars.

Additional information relating to the Company and subsequent press releases, have been filed electronically through the System for Electronic Document Analysis and Retrieval ("**SEDAR**") and is available online at [www.sedar.com](http://www.sedar.com), or at the Company's website at [www.petrolympic.com](http://www.petrolympic.com)

The Company's shares are listed on the Toronto Stock Exchange Venture Exchange (the "**TSX-V**") under the trading symbol "PCQ".

The comparative reporting period is the year ended December 31, 2007 ("**2007**").

This MD&A was prepared on April 30, 2009.

### **Forward Looking Statements**

This MD&A includes certain forward-looking statements within the meaning of applicable Canadian securities legislation. All statements, other than statements of historical facts, included in this MD&A that address activities, events or developments that the Company expects or anticipates will or may occur in the near future, including future business strategy, goals, exploration programs or other such matters are forward-looking statements. When used in this MD&A, the words "estimate", "plan", "anticipate", "expect", "intend", "believe" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company to be materially different from future results expressed or implied by such forward-looking statements. Such factors include, among others, risks related to joint venture operations, actual results of current or planned exploration activities, changes in project parameters as plans continue to be refined, unavailability of financing, fluctuations in oil and natural gas prices and other such factors. Accordingly, the reader should not place undue reliance on forward-looking statements by the Company. Statements speak only as of the date on which they are made.

### **OVERALL PERFORMANCE**

#### **Economic Situation and Company Response**

The Company is taking firm measures in response to the global financial and commodity price crisis. Management is strongly committed to ensuring that the Company survives the current market turmoil and is implementing a strategy to ensure this goal. The Company has recently reduced expenditure to a minimum through cost reduction initiatives at the corporate level and has temporarily halted development work on its Gaspé properties.

The realization of shareholder value will continue to be our key objective, and continuing advancement of the Company's projects will be fundamental to this objective. Although the current cash position of the Company is sufficient to cover corporate activities and operational activities for the next two years,

including the maintenance of royalty, option and other property commitments, the Company is actively seeking joint venture and farm-in opportunities to achieve its goal of bringing its oil and gas exploration properties into commercial production and continue exploration and development activities as required.

The Company has existing commitments at December 31, 2008 of approximately \$3.7 million, up to the end of year 2013, representing minimum annual property rental and required exploration expenditures. In addition, the Company has not yet determined whether it has any economically recoverable reserves and the underlying value of the interests in petroleum and natural gas properties is dependent upon the existence of such economically recoverable reserves, obtain the necessary financing to develop the reserves and generate profitable production.

Such circumstances and the difficulty of obtaining financing during the current economic downturn substantially increases concerns regarding the ability of the Company to raise additional capital and to continue as a going concern and lend doubt as to the ability of the Company to achieve such future profitable production and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The Company's ability to continue as a going concern is dependent upon its ability to fund its working capital, exploration and development requirements and eventually to generate positive cash flows, either from operations or sale of its properties.

## **Corporate Developments**

### *Farmout agreement with Canbriam Energy Inc.*

On November 25, 2008 Petrolympic, together with its joint venture partner Ressources et Energie Squatex Inc. ("**Squatex**"), entered into a farmout and joint operating agreement with Calgary-based Canbriam Energy Inc. ("**Canbriam**"), pursuant to which Canbriam will have the right to earn a 60% interest in up to 32,000 hectares (79,074 acres) of exploration permits in the Queenston, Lorraine and Utica formations (down to the top of the Trenton Formation) that form part of the existing joint venture between Squatex and Petrolympic (the "**Existing JV**"). Refer also the section "Properties and Projects - *St. Lawrence Lowlands*" below for a description of this existing agreement.

The key terms of the joint operating agreement are as follows:

- Canbriam made cash payments of \$2.45 million to Squatex and \$1.05 million to Petrolympic upon the parties entering into the joint operating agreement.
- Within 3 months from entering into the joint operating agreement, Canbriam will make a determination as to which 2 permits it would like to designate as forming part of the farmout lands (the "**Farmout Lands**") under the joint operating agreement.
- Canbriam shall drill 1 vertical well to the base of the Utica formation and/or 30 metres into the top of the Trenton formation prior to October 31, 2009 (the "**Initial Exploration Program**").
- Within 90 days of completing the Initial Exploration Program, Canbriam shall select and notify the Existing JV of an 8,000 hectare parcel of contiguous Farmout Lands for which Canbriam shall have earned a 60% interest. The remaining 40% interest shall be held by Squatex and Petrolympic, based on the terms of the Existing JV.
- Canbriam shall have the option to earn a 60% interest on up to an additional 24,000 hectares comprising part of the Farmout Lands by drilling up to 6 vertical/horizontal wells and making cash payments up to \$9,450,000 to Squatex and \$4.05 million to Petrolympic, prior to November 30, 2011.
- If Canbriam earns the interest on such Farmout Lands, the remaining 40% interest shall be held by Squatex and Petrolympic based on the terms of the Existing JV Canbriam shall be responsible for all drilling costs, completion costs or abandonment costs incurred with respect to the earning wells described above.

In February 2009, Canbriam selected permits 2006PG864 and 2006PG866 as Farmout Lands and provided the farmers with the first two intended drilling site locations.

### *Joint venture developments*

Squatex, Petrolympic's joint-venture operator, awarded a major contract to GPR International Inc. and Kinetex Inc. to complete the field acquisition of 200 kilometers of new Reflection Seismic Profiles. During August and September 2008, 125 kilometers of seismic lines were recorded to detail two "Utica plays" near Chambly and near Ste-Hélène over the St. Lawrence Lowlands Basin properties.

Additionally, 75 kilometers of regional lines were also acquired over the Bas-Saint-Laurent and Gaspé region properties to better understand the structural complexity of the Lower Silurian section and see its relation with the Ordovician shale source rocks. Squatex has completed over the Bas-Saint-Laurent permits, through a contract awarded to INRS-ETE, the acquisition of a 1650 kilometers radiometric land survey, and collection of 350 soil samples for geochemical analysis and nearly 100 rock samples for maturity and TOC analysis along selected transects.

### *New corporate website*

In its continuous effort to better inform its existing and potential shareholders, Petrolympic launched its new website, found at [www.petrolympic.com](http://www.petrolympic.com).

## **Overview and Corporate History**

The Company was incorporated as Pisces Capital Corp. by Articles of Incorporation issued pursuant to the provisions of the Business Corporations Act (Ontario) (the "OBCA") on January 19, 2006. Its main activities consist of oil and gas exploration in the province of Québec.

The reader is reminded that effective December 21, 2007, the Company completed a Reverse Take-Over (the "**Acquisition**") and issued 48,147,111 common shares of the Company (the "**Common Shares**") to the shareholders of Petrolympia Inc. ("**Petrolympia**") and 66,845 replacement warrants (the "**Replacement Warrants**") to holders of warrants of Petrolympia. Each Replacement Warrant entitles the holder to acquire one Common Share and one-half of one Common Share purchase warrant ("**Underlying Replacement Warrant**") for a period of 18 months from completion of the Acquisition at an exercise price of \$0.18, with each Underlying Replacement Warrant being exercisable into one Common Share at an exercise price of \$0.25 for a period of 18 months from completion of the Acquisition. The Acquisition was completed by a way of a three-cornered amalgamation under the Companies Act (Québec) pursuant to the terms of the amalgamation agreement entered into on September 18, 2007 among the Company, 9186-4140 Quebec Inc. and Petrolympia. The Company continued under the name Petrolympic Ltd. For accounting purposes Petrolympia is deemed to be the acquirer of Petrolympic although Petrolympic is the legal parent company and the reporting issuer. For accounting purposes the transaction was treated in accordance with Canadian GAAP which requires that this reverse take-over be viewed as the issuance of equity by Petrolympia for the net monetary assets of Petrolympic.

Accordingly (and in accordance with Canadian GAAP), prior period comparisons consist of those made with Petrolympia's financial position at that time.

## **Properties and Projects**

### *Gaspé Peninsula*

The Company, through its subsidiary, Petrolympia, holds a 100% interest in two (2) oil and gas ("**PG**") and underground reservoir ("**RS**") exploration permits covering 40,885 hectares (101,027 acres) in the Gaspé region between Rimouski and Matane. The Matapedia permit 2003 RS 092, was initially granted by the Québec government in September 2003 to Prospection 2000 Inc. who transferred the ownership in 2004 to Petrolympia. The Mitis permit 2006 PG 905, was granted by the government to Petrolympia in the spring of 2006. Both permits are located to the southwest of Highway 132, a few kilometers south of Val-

Brilliant. Main roads and various secondary, as well as private or forestry roads allow very good access to the properties for the acquisition of seismic surveys.

In January 2008, a second seismic program was developed by Petrolympic for the Mitis permit, to show the possible extensions of large anticline structures that were observed from the previous 2006 seismic survey.

Petrolympic has reviewed internally in 2008 the available geological and geophysical data relating to its Gaspé permits area. The revised interpretation performed allowed the development of a detailed exploration program and the selection of what appeared to be the best drilling location to seek hydrocarbons accumulations within the Devonian-Silurian rocks of the area. Surface rights were secured and a drilling site was constructed. Delays caused by difficulties to obtain a drilling rig, followed by the economic turmoil that occurred later in the year, prompted Petrolympic to take the decision to postpone the drilling of the well to a later date, work obligations on the permits being largely fulfilled.

In parallel with its internal technical work, Petrolympic requested an independent seismic assessment of the prospective potential of the Mitis and the Matapedia permits, to be conducted by Sproule Associates Ltd. ("**Sproule**") in Calgary. Previous government seismic lines were used by Sproule in their study, together with Petrolympic's 2006 and 2008 profiles. Sixteen 2D seismic profiles were interpreted, resulting in the identification and mapping of at least 10 prospective structural leads (7 in the Matapedia area and 3 in the Mitis area). In the immediate region, three prospective structural southwest-northeast trending fairways separated by right lateral strike-slip motions were outlined. This structural trend aligns with the major Shickshock-Sud fault that put in contact the older Cambrian-Ordovician rocks to the north with younger Silurian-Devonian rocks on the downthrown side.

The identified exploration leads include some with multiple target zones within the Indian Cove, the Forillon, the West Point, the Sayabec and the Val-Brillant formations. Their closures range in areal extent from approximately 120 to 3000 acres. In all, 31 structural closures were mapped. Sproule's interpretation and ranking of the various leads found that the ones previously selected by Petrolympic were the most interesting to be tested.

The largest multiple structural closure found from seismic is intended to be tested by Petrolympic down to a depth of 1500 meters in its exploration program of the area when the economic situation improves and proper equipment becomes available. The location has been chosen near a major fault where many fractures are likely to be present and cause secondary porosity for hydrocarbons accumulations. Two of the 7 exploration wells drilled in the area, the C-119 and C-125 wells that are located immediately to the northeast boundary of the Matapedia permit reported shows of light crude oil in fractured vuggy porosity within early Devonian/late Silurian rocks

#### *St. Lawrence Lowlands*

The Company, through its subsidiary, Petrolympia, holds a 100% interest in four (4) oil and exploration permits covering 73,021 hectares (180,435 acres) in the St. Lawrence Lowlands located on the south shore of the St. Lawrence River directly south of the City of Valleyfield, less than 30km southwest of Montreal.

The permits block lies in the south-western portion of the St. Lawrence Lowlands sedimentary basin in the shallow part of a more or less undisturbed Ordovician carbonate platform. Three permits covering 56,622 hectares were granted in April 2006 by the Québec government. In April 2007, Petrolympia increased the size of the block in acquiring a fourth permit covering an area of some 16,399 hectares.

This later permit was not renewed: Further exploration studies made in the field in 2008 indicated that a large zone of this permit was not showing the expected geological parameters that were initially put forward for the area, lowering in it the potential for commercial accumulations of hydrocarbons. Petrolympic therefore decided not to renew permit 2007PG925 on April 10th 2009, leaving a total Lowlands holding of 56,622 hectares(139,856 acres).

Numerous paved and gravel roads exist throughout the permitted area. A secondary gas pipeline connected to the main Gaz Metro line to the north of the St. Lawrence River runs across the property. The area is believed to have potential for shallow gas production. The permits are located at short distance of important normal faults bringing the Utica Formation source rocks in contact with potential reservoir rocks in the Beekmantown and Potsdam Formations. Possible trapping mechanisms for gas accumulation in the eastern part of the property are inferred from surface geology.

On June 30, 2008, the Company completed the acquisition of a 30% legal and beneficial interest in 36 exploration permits totaling 672,438 hectares(1,661,594 acres) in the St. Lawrence Lowlands, Bas St-Laurent and Gaspé Peninsula in Québec through a joint venture arrangement with Squatex. As a consideration for the acquisition of this interest, in addition to advancing an initial payment of \$500,000 to Squatex upon entering into a binding agreement on May 15, 2008, the Company made additional cash payment of \$2,000,000, thereby completing all payments before schedule. Of the advanced \$2,000,000, \$1.8 million of such funds were used for exploration of the properties and \$200,000 remained available to Squatex for its working capital.

Squatex, as the exploration operator of the new land, developed a sturdy work program during the summer and the fall, consisting of recording 200 kilometers of 2D seismic survey (125Km in the St. Lawrence Lowlands and 75Km in the Lower St.Lawrence-Gaspé regions), gathering some 350 geochemical samples along 52 Km of selected transects in the Lower St.Lawrence-Gaspé region, combined with the acquisition of more than 1650Km of radiometric survey over of public roads and selecting various geological samples to study the maturity and total organic content (TOC) of specific rock units.

On November 25, 2008 Petrolympic and Squatex entered into a farmout and joint operating agreement with Canbriam, pursuant to which Canbriam will have the right to earn a 60% interest in up to 32,000 hectares (79,074 acres) of exploration permits in the Queenston, Lorraine and Utica formations (down to the top of the Trenton Formation) that form part of the existing joint venture between Squatex and Petrolympic. Refer "Corporate Developments" above for more discussion on this agreement.

### **Private Placements**

On June 26, 2008, the Company completed a private placement of 2,500,000 units at a price of \$1.00 per unit for proceeds of \$2,500,000. Each unit consists of one common share and one common share purchase warrant exercisable for 18 months at \$1.40.

### **Stock Options and Warrants**

On February 28, 2008, the Company granted 4,741,669 options to acquire 4,741,669 shares of the Company at a price of \$0.18 per share.

On June 16, 2008, the Company granted 666,667 options to acquire 666,667 shares of the Company at a price of \$0.90 per share.

On June 23, 2008, the Company granted 800,000 options to acquire 800,000 shares of the Company at a price of \$0.90 per share.

On September 12, 2008, the Company granted 800,000 options to acquire 800,000 shares of the Company at a price of \$0.40 per share.

As mentioned previously, the Company completed a private placement of 2,500,000 units on June 26, 2008, at a price of \$1.00 per unit, for proceeds of \$2,500,000. Each unit consists of one common share and one common share purchase warrant exercisable for 18 months at \$1.40.

## Results of Operations

### Selected Quarterly and Annual Information

	Three months ended December 31, 2008	Year ended December 31, 2008	Year ended December 31, 2007
Total Revenues	\$ Nil	\$ Nil	\$ Nil
Net Income (Loss)	217,573	(1,829,508)	(30,000)
Loss Per Share	0.003	(0.024)	(0.000)
Cash	4,459,825		3,045,483
Total Assets	9,798,903		5,354,219
Total Liabilities	1,405,094		1,591,735
Shareholders' Equity	8,393,809		3,762,484
General and Administration	486,715	905,480	30,000
Exploration Expenses	919,993	2,202,505	291,440
Stock based compensation	376,105	2,067,679	-

The Company has no operating revenues and relies on external financings to generate capital. As a result of its activities, Petrolympic continues to incur net losses.

#### Three months ended December 31, 2008

The Company's operational variances year-over-year are all attributable to fact that during 2007, the Company's results of operations included capitalized exploration expenses of \$291,440 and only \$30,000 in professional fees that were charged to expenses.

General and administration expenses for the three months ended December 31, 2008 was \$486,715, compared with \$30,000 for the corresponding period last year. General and administrative expenses for the third and second quarter were \$105,173 and \$297,283 respectively. Stock based compensation of \$376,105 compares with \$Nil for the corresponding period last year.

Exploration expenses, capitalized in accordance with the Company's accounting policies and in accordance with Accounting Guideline AcG-16, were \$919,993 for the three months ended December 31, 2008, compared with exploration expenses of \$220,135 for the corresponding period last year.

Cash flows provided by operating activities for the three months ended December 31, 2008 was \$833,482, compared with cash flows used in operating activities of \$375,773 for the corresponding period last year. The reason for the variance is attributable to the gain on the farmout agreement with Canbriam.

Cash flow from investing activities, predominantly capitalized property acquisition costs and exploration costs, reflected an inflow of \$777,554 for the three months ended December 31, 2008, which is attributable to the \$1,050,000 received under the agreement with Canbriam (refer "Corporate Developments" section above), compared with \$92,308 for the corresponding period last year.

## Year ended December 31, 2008

The Company's operational variances year-over-year are all attributable to fact that during 2007, the Company's results of operations included capitalized exploration expenses of \$291,440 and only \$30,000 in professional fees that were charged to expenses.

General and administrative expenses for 2008 was \$905,480, compared with \$30,000 for the corresponding period last year. Stock based compensation of \$2,067,679 compares with \$Nil for the corresponding period last year.

Exploration expenses (net of refundable tax credit for resources), capitalized in accordance with the Company's accounting policies and in accordance with Accounting Guideline AcG-16, were \$2,202,505 for 2008, compared with \$291,440 for 2007.

Cash flows provided by operating activities for 2008 of \$52,712 compares with cash provided by operating activities of \$117,864 for 2007. The variance is not significant, as the Company's expenditures were offset by the \$1,050,000 gain on the farmout agreement with Canbriam.

Cash flow from financing activities of \$4,233,383 for 2008 compares with \$2,832,570 for 2007. For a full explanation of the financing activities undertaken during 2008, please refer the section "Private Placements" above.

Cash flow from investing activities, predominantly capitalized property acquisition costs and exploration costs for 2008 was \$2,871,753 compared with \$291,440 for 2007. The variance is attributable to the Company's significant exploration activity undertaken during 2008, compared with minimal exploration and acquisition activity undertaken during the corresponding period last year.

## SUMMARY OF QUARTERLY RESULTS

The following tables set out financial performance highlights for the past eight quarters.

	<b>Fourth Quarter</b> Dec. 31, 2008	<b>Third Quarter</b> Sep. 30, 2008	<b>Second Quarter</b> June 30, 2008	<b>First Quarter</b> March 31, 2008
Revenue / income	\$ 1,050,000	\$ 0	\$ 0	\$ 0
Expenses	862,820	412,373	1,331,417	366,549
Net income (loss)	217,573	(380,508)	(1,300,024)	(366,549)
Net loss per share	(0.00)	(0.01)	(0.02)	0.00
Cash flows provided by (used in) operating activities	833,482	(233,112)	(253,306)	(294,352)
Cash and cash equivalents, end of period	4,459,825	3,565,734	3,868,351	2,417,738
Assets	9,798,903	8,717,966	8,903,149	5,098,493

	<b>Fourth Quarter</b> Dec. 31, 2007	<b>Third Quarter</b> Sep. 30, 2007	<b>Second Quarter</b> June 30, 2007	<b>First Quarter</b> March 31, 2007
Revenue	\$ 0	\$ 0	\$ 0	\$ 0
Expenses	30,000	0	0	0
Net loss	(30,000)	0	0	0
Net loss per share	0.00	0.00	0.00	0.00
Cash flows used provided by operating activities	117,864	0	0	0

Cash and cash equivalents, end of period	3,045,483	0	0	0
Assets	5,354,219	0	0	0

### Liquidity and Capital Resources

Petrolympic's working capital on December 31, 2008, was \$3,733,273, compared with \$1,979,252 on December 31, 2007. The cash balance and cash equivalents balance on December 31, 2008, was \$4,459,825, compared with \$3,045,483 on December 31, 2007. The increase in cash and working capital is due to an inflow of cash of approximately \$4.3 million from financing activity during 2008, predominantly offset by exploration expenditures of approximately \$2.2 million and general and administration expenses incurred of approximately \$0.9 million during 2008.

The Company's asset base as at December 31, 2008 has improved when compared with its asset base as at December 31, 2007, due to significant financing activity, predominantly capital raised through private placements. Petrolympic raised approximately \$4.4 million in net proceeds from various financing activities during 2008 and the Company raised approximately \$2.2 million in net proceeds during 2007.

While Petrolympic is dependant on the success of financing initiatives, management intends to strictly control all expenses and focus on creating value for shareholders by exploring and developing its most promising oil and gas properties. In the near term, the Company intends drilling one shallow exploration well in the St. Lawrence Lowlands, interpreting additional seismic data and drilling a test well in the Gaspé Peninsula. The Company will also actively pursue acquiring additional oil and gas properties and will seek out joint venture opportunities, especially in the Gaspé Peninsula and the St. Lawrence Lowlands.

Current liabilities as at December 31, 2008 consisted of accounts payable, loan payable to a director and 5% promissory notes, totaling \$1,068,888. This compares with total current liabilities of \$1,249,584 as at December 31, 2007. The reason for the variance is predominantly attributable to a reduction in the 5% promissory note of \$159,771, representing repayments of the promissory note.

#### Share Capital Continuity

	Number of Shares	Amount
Balance, December 31, 2007	70,754,849	\$ 2,126,261
Private placements	2,500,000	2,500,000
Allocated to warrants	-	(872,250)
Issued on exercise of warrants	7,443,113	1,794,368
Exercise of warrants — valuation	-	709,163
Issued on exercise of options	657,117	100,818
Exercise of options — valuation	-	33,438
Share issue expenses	-	(2,032)
Balance, December 31, 2008	81,355,079	\$ 6,389,766

#### Warrants Continuity

	Number of Warrants	Allocated Value
Balance, December 31, 2007	12,351,140	\$ 1,166,954
Granted	2,500,000	872,25
Exercised	(7,443,113)	(709,163)
Balance, December 31, 2008	7,408,027	\$ 1,330,041

<b>Stock Options Continuity</b>	<b>Number of Stock Options</b>	<b>Weighted Average Exercise Price</b>
Balance, December 31, 2007	588,300	\$ 0.15
Granted	7,008,336	0.36
Exercised	(657,117)	0.15
Balance, December 31, 2008	6,939,519	\$ 0.36

The Company does not earn any revenue from its exploration and development activities.

While Petrolympic is dependant on the success of joint venture, farm-in and financing initiatives, management intends to strictly control all expenses and focus on creating value for shareholders by exploring and developing high-potential oil and gas properties which it believes are to be the most promising.

#### **Disclosure of Outstanding Share Data**

As at December 31, 2008 and April 30, 2009, the Company had 81,355,079 shares outstanding. In addition, the Company had 6,939,519 stock options and a total of 7,408,027 warrants outstanding.

The warrants are comprised of 4,862,247 warrants which expire on December 21, 2009; 2,500,000 warrants which expire on December 26, 2009; 2,224 broker warrants expiring on December 21, 2009; 35,556 replacement warrants expiring on June 21, 2009 and 8,000 warrants expiring on December 21, 2009.

The issue of common shares of the Company upon the exercise of the options and warrants will dilute the ownership interest of the Company's current shareholders. The Company may also issue additional options and warrants or additional common shares from time to time in the future. If it does so the ownership interest of the Company's then current shareholders could also be diluted.

#### **RELATED PARTY TRANSACTIONS**

Not applicable.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

None.

#### **SUBSEQUENT EVENTS**

Refer "Corporate Developments" above.

#### **PROPOSED TRANSACTIONS**

There are no proposed transactions at this time, although the Company does evaluate potential merger, acquisition, investment and joint venture opportunities.

#### **CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amount of certain revenue and expenses during the period. Actual results could differ significantly from those estimates.

## **Critical Accounting Estimates and Assumptions**

### *Assessment of Recoverability of Petroleum and Natural Gas Property Costs*

The Company's recorded value of its exploration properties is based on historical costs that expect to be recovered in the future. The Company's recoverability evaluation is based on market conditions for petroleum and natural gas, underlying petroleum and natural gas resources associated with the properties and future costs that may be required for ultimate realization through extraction operations or by sale.

### *Assessment of Recoverability of Future Income Tax Assets*

In preparing the consolidated financial statements, the Company is required to estimate its income tax obligations. This process involves estimating the actual tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. The Company assesses, based on all available evidence, the likelihood that the future income tax assets will be recovered from future taxable income and, to the extent that recovery cannot be considered "more likely than not," a valuation allowance is established. If the valuation allowance is changed in a period, an expense or benefit must be included within the tax provision on the consolidated income statement.

### *Estimate of Stock Based Compensation and Associated Assumptions*

The Company recorded stock-based compensation based on an estimate of the fair value on the grant date of stock options issued. This accounting required estimates of interest rate, life of options, stock price volatility and the application of the Black-Scholes option pricing model.

### *Assessment of Recoverability of Receivables Including VAT*

The carrying amount of accounts receivables and Value Added Tax are considered representative of their respective values. The Company assesses the likelihood that these receivables will be recovered and, to the extent that recovery is considered doubtful a provision for doubtful accounts is recorded.

### *Estimate of Fair Value of Financial Instruments*

Where the fair value of a financial instrument is different than its carrying value disclosure of the estimated fair value is required. The fair value disclosed is based on management estimates using assumptions such as market interest rates.

### *Going Concern Assumption*

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they come due.

The Company's ability to continue as a going concern is dependent upon its ability to fund its working capital and exploration requirements and eventually to generate positive cash flows, either from operations or sale of properties. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

### *Asset Retirement Obligations*

Future costs to retire an asset including dismantling, remediation and ongoing treatment, and monitoring of the site are recognized and recorded as a liability at fair value. The liability is accreted, over time

through periodic charges to earnings. In addition, asset retirement costs are capitalized as part of the asset's carrying value and amortized over the asset's useful life.

The Company has determined that it has no obligations relating to the retirement of its assets and no liability has been recognized as at December 31, 2008.

## **Critical Accounting Policies**

### *Income Tax*

The Company accounts for income taxes in accordance with the asset and liability method. The determination of future income tax assets and liabilities is based on the differences between the financial statement and the income tax bases of assets and liabilities, using substantively enacted tax rates in effect for the period in which the differences are expected to reverse. Future income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not that they will be realized.

### *Refundable tax credit for resources*

The Company is also eligible for a refundable tax credit for resources for petroleum and natural gas industry companies in relation to eligible expenses incurred. The refundable tax credit for resources represents up to 38.75% of the amount of eligible expenses incurred. This tax credit is recognized as a credit under deferred expenditures.

### *Petroleum and Natural Gas Costs*

The Company follows the full cost method of accounting whereby all costs associated with the acquisition, exploration and development of petroleum and natural gas reserves are capitalized. Such costs include geological and geophysical costs, carrying charges on non-producing properties, costs of drilling and administrative overhead cost directly related to acquisition and exploration activities.

Costs capitalized are depleted on the unit-of-production method based on the estimated proved reserves.

Costs of acquiring and evaluating unproved reserves are initially excluded from depletion calculations. These unevaluated reserves are assessed periodically to ascertain whether impairment has occurred.

In applying the full cost method, the Company performs an annual impairment test ("ceiling test") which recognizes an impairment loss when the capitalized costs less accumulated depletion and amortization is not recoverable and exceeds its fair value. Fair value is determined as the estimated fair market value of future net revenues from proved and probable oil and gas reserves as determined by independent engineers, based on sales prices achievable under forecast prices and posted average reference prices in effect at the end of the year and forecast costs, and after deducting estimated future production related expenses, future site restoration costs and income taxes. Recoverability is determined using the undiscounted value of cash flows of proved reserves. The cash flows of proved reserves are derived from revenues from proved oil and gas reserves, as determined by independent engineers.

The Company did not apply a ceiling test in 2008 and 2007 because it is in the pre-production stage and no proved reserves have been established.

### *Cash and Cash Equivalents*

Cash and cash equivalents are comprised of highly liquid investments with maturity of 3 months or less at the date of original issue.

### *Flow-through Financing*

The Company has financed a portion of its exploration activities through the issue of flow through shares, which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock and the related \ exploration costs have been charged to petroleum and natural gas properties. Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciations reduce share capital.

### *Loss per Share*

Basic loss per share is determined by dividing the net loss by the weighted average number of ordinary shares outstanding during the financial period. Diluted loss per share is the same as basic loss per share as the effect of potential issues of shares under option or from warrant exercises would be anti-dilutive.

### *Revenue recognition*

Gains and losses on sale of marketable securities and properties are recognized when realized. Interest income is recognized on the accrual basis.

### *Share issue costs and reorganization costs*

Share issue costs are recorded as a reduction of share capital. Reorganization costs are charged to deficit.

### *Translation of foreign currencies*

Foreign currency accounts are translated into Canadian dollars as follows: At the transaction date, each asset, liability, revenue or expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in operations in the current period.

## **Changes in Accounting Policies including Initial Adoption**

### *General Standard of Financial Statement Preparation*

In June 2007, the CICA amended Handbook Section 1400, Going Concern, to assess an entity's ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. Section 1400 is effective for interim and annual reporting periods beginning on or after January 1, 2008. The application of this new standard had no impact on the Company's consolidated financial statements as at and for the year ended December 31, 2008.

### *Comprehensive Income, Financial Instruments and Hedges*

On October 1, 2006, the Company adopted CICA Handbook Sections 1530, "Comprehensive Income", Section 3855, "Financial Instruments - Recognition and Measurement" and Section 3865, "Hedges."

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost.

Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

Under adoption of these new standards, the Company designated its cash and cash equivalents as held-for-trading, which are measured at fair value. GST and sundry receivable, prepaid expenses, exploration advances and due from a related party are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and are classified as other financial liabilities, which are measured at amortized cost.

Section 3865 describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from derivative financial instruments in the same period as for those related to the hedged item.

The adoption of these Handbook Sections had no impact on opening deficit.

#### *Inventories*

Handbook Section 3031, Inventories, relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. The new standard applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. The Company has determined that this standard does not have a significant impact on its financial statements.

#### *Capital Disclosures and Financial Instruments – Disclosures and Presentation*

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation. These standards are effective for interim and annual consolidated financial statements for the Company's reporting period beginning on June 1, 2008.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook section in Note 4 to the annual consolidated financial statements for 2008.

The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments — Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company's financial statements for the year ended December 31, 2008 include such disclosure in Note 5 to the annual consolidated financial statements for 2008.

## **Future Accounting Changes**

### *International Financial Reporting Standards ("IFRS")*

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008 the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosure requirements.

During the next periods, the Company will develop its internal implementation plan to meet the guidelines of the future reporting requirements.

### *Goodwill and Intangible Assets*

CICA Handbook Section 3064, Goodwill and Intangible Assets ("CICA 3064"), results in withdrawal of CICA 3450, Research and Developmental Costs, and amendments to Accounting Guideline 11, Enterprises in the Development Stage and CICA 1000, Financial Statement Concepts. The standard intends to reduce the differences with IFRS in the accounting for intangible assets and results. Under current Canadian standards, more items are recognized as assets than under IFRS. The objectives of CICA 3064 are to reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition and to clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing asset items that do not meet the definition and recognition criteria is eliminated. The new standard also provides guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets. The new standard takes effect for fiscal years beginning on or after October 1, 2008, with early adoption encouraged. The Company is evaluating the effects of adopting this standard.

### *Business Combinations, Consolidated Financial Statements and Non-Controlling Interests*

The CICA issued three new accounting standards in January 2009: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-Controlling interests". These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards. Sections 1582 replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3 - Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace section 1600, "Consolidated Financial Statements". Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27 - Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Tax credit receivable and sales tax receivable are classified as loans and receivables, which are measured at amortized cost and are equal to fair market value. Accounts payable and accrued

liabilities, loan payable to director and 5% promissory notes are classified as other financial liabilities, which are measured at amortized cost and are also equal to fair market value.

As of December 31, 2008, the Company estimates that the fair values of all its financial instruments approximate their carrying values. Petrolympic does not expect to be exposed to significant interest, currency or credit risks arising from these financial instruments. The Company estimates that the fair values of all its financial instruments approximate their carrying values.

## **OUTLOOK**

Petrolympic has met all its financial and operational obligations for 2008, including its flow-through allocations. The company has very low operational costs with adequate cash to fund continuing operations.

As discussed under “Economic Situation and Company Response”, the Company has decided in late fall of 2008 to postpone its exploration work over its 100% interest Gaspé properties until the economic crisis resolves itself and new activities on these properties are not likely to take place before the end of 2009.

Where the joint venture with Squatex and farm-out with Canbriam is concerned, the Company will engage in interpretation and integration of the data acquired during 2008 and it is already expected that complementary geological and geochemical samplings will be completed.

The Company will be more active on its Lowlands properties and Petrolympic is planning to proceed this summer with a geochemical sampling program across the Havelock Fault and other geological features in the area and will likely complete a radiometric survey along more than 400 kilometers of roads in the area, to better position the Company’s first drilling site.

Regarding the joint venture and farm-out property, the elected operator for the consortium, Canbriam, is planning to pursue its exploration program as scheduled and shall start to drill its first well as early as June 2009 to test the potential of the Utica and Lorraine for gas production.

## **RISKS AND UNCERTAINTIES**

At the present time, Petrolympic does not hold any interest in an oil and gas property in production. Therefore, the Company’s viability and potential success lies in its ability to develop, exploit and generate revenues from potential oil and gas deposits discoveries, resulting from planned exploration programs on its properties or its option agreements. Revenues, profitability and cash flow from any future extraction operations involving the Company will be influenced by crude oil prices and by the relationship of such prices to the production costs. Such prices have fluctuated widely in the past, affected by numerous factors beyond the Company’s control.

Petrolympic has limited financial resources and there are no assurances that additional funding will be available for further exploration and development of its projects or to fulfill its obligations under applicable option agreements. Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there is no assurance that it will be able to obtain such additional financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of the property interests of the Company with the possible dilution or loss of such property interest.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company is available on the Internet at the SEDAR website located at [www.sedar.com](http://www.sedar.com) and at [www.petrolympic.com](http://www.petrolympic.com).