PetroFrontier

Annual Consolidated Financial Statements for the years ended December 31, 2011 and 2010

MANAGEMENT'S REPORT

To the Shareholders of PetroFrontier Corp.:

Management is responsible for the preparation of the accompanying consolidated financial statements. Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

PetroFrontier's external auditors, PricewaterhouseCoopers LLP, Chartered Accountants, who are appointed by the shareholders, have audited the consolidated financial statements. The Audit Committee has reviewed the consolidated financial statements with management and the auditors and has recommended their approval to the Board of Directors. The Board of Directors has subsequently approved the consolidated financial statements.

"signed"

Paul J. Bennett, H.BSc., MSc., P. Geol.
Chief Executive Officer

"signed"

Shane J. Kozak, CA
Vice President Finance and Chief Financial

Calgary, Canada
April 30, 2012

April 30, 2012

Independent Auditor's Report

To the Shareholders of
PetroFrontier Corp.

We have audited the accompanying consolidated financial statements of PetroFrontier Corp. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2011 and 2010 and January 1, 2010 and the consolidated statements of loss and comprehensive loss, changes in equity, and cash flows for the years ended December 31, 2011 and 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP, Chartered Accountants
Suite 3100, 111 5th Avenue SW, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825, www.pwc.com/ca

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PetroFrontier Corp. and its subsidiaries as at December 31, 2011 and 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

PetroFrontier Corp.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Canadian Dollars)

As at	December 31, 2011	December 31, 2010	January 1, 2010
ASSETS			
Current			
Cash and cash equivalents (Note 6)	24,358,559	55,710,522	8,279,000
Term deposits (Note 7)	2,500,000	-	-
Restricted cash (Note 5)	-	58,467	-
Marketable securities	49,284	-	-
Financial derivative instruments (Note 19)	40,198	-	-
Accounts receivable (Note 8)	1,400,005	1,675,441	10,919
Prepaid expenses and deposits	666,998	321,411	-
	29,015,044	57,765,841	8,289,919
Corporate assets (Note 12)	82,576	2,050	-
Exploration and evaluation assets (Note 12)	96,454,822	10,213,926	2,129,008
Goodwill (Note 9 & 11)	8,946,231	-	-
	134,498,673	**67,981,817**	**10,418,927**
LIABILITIES			
Current			
Accounts payable and accrued liabilities (Note 13)	6,256,024	2,764,508	78,347
Decommissioning liabilities (Note 14)	96,000	-	-
	6,352,024	2,764,508	78,347
Decommissioning liabilities (Note 14)	500,680	-	-
Deferred tax liability (Note 17)	16,261,859	-	-
	23,114,563	2,764,508	78,347
SHAREHOLDERS' EQUITY			
Share capital (Note 15)	117,189,874	68,110,645	10,411,608
Warrants (Note 15)	1,073,250	-	-
Contributed surplus (Note 15)	6,528,103	2,132,585	252,249
Accumulated other comprehensive income (Note 15)	743,128	789,146	285,608
Deficit	(14,150,245)	(5,815,067)	(608,885)
	111,384,110	65,217,309	10,340,580
	134,498,673	**67,981,817**	**10,418,927**

See accompanying notes to the consolidated financial statements

Commitments and contingencies (Note 21)
Subsequent events (Note 25)

Approved on behalf of the Board

"signed" "signed"

Martin P. McGoldrick
Director

Robert J. Iverach, Q.C., ICD.D
Director

PetroFrontier Corp.

CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

(Canadian Dollars)

	For the years ended December 31	
	2011	**2010**
EXPENSES		
General and administrative	3,851,616	2,425,504
Loss on marketable securities	7,935	-
Foreign exchange gain	(124,874)	-
Financial derivative instruments (Note 19)	(221,966)	-
Share-based compensation (Note 15)	4,902,076	1,993,107
Depreciation	25,651	513
Corporate acquisition costs	1,173,087	-
Listing expense	-	878,338
Results from operating activities	**9,613,525**	**5,297,462**
Finance income	491,399	99,881
Finance costs	(23,025)	(8,601)
Net finance income	**468,374**	**91,280**
Net loss before taxes	**(9,145,151)**	**(5,206,182)**
Deferred tax recovery (Note 17)	768,599	**-**
Net loss from continuing operations	**(8,376,552)**	**(5,206,182)**
Net earnings from discontinued operations (Note 10)	**41,374**	**-**
NET LOSS	**(8,335,178)**	**(5,206,182)**
OTHER COMPREHENSIVE EARNINGS		
Foreign exchange gain/(loss) on foreign operations	(46,018)	503,538
COMPREHENSIVE LOSS	**(8,381,196)**	**(4,702,644)**

Net loss per share (Note 15)		
Basic and diluted from continuing operations	**0.15**	**0.28**
Basic and diluted from discontinued operations	**-**	**-**
Basic and diluted	**0.15**	**0.28**

PetroFrontier Corp.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Canadian Dollars)

	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance at January 1, 2011	68,110,645	-	2,132,585	789,146	(5,815,067)	65,217,309
Net loss					(8,335,178)	(8,335,178)
Foreign exchange gain on translation of foreign operations				(46,018)		(46,018)
Exercise of Pendulum agent's options	27,000					27,000
Acquisition of Texalta	47,784,926	1,073,250				48,858,176
Exercise of stock options	1,197,305		(506,558)			690,747
Exercise of Pendulum stock options	69,998					69,998
Share-based compensation			4,902,076			4,902,076
Balance at December 31, 2011	**117,189,874**	**1,073,250**	**6,528,103**	**743,128**	**(14,150,245)**	**111,384,110**
Balance at January 1, 2010	10,411,608	-	252,249	285,608	(608,885)	10,340,580
Net loss					(5,206,182)	(5,206,182)
Foreign exchange loss on translation of foreign operations				503,538		503,538
Reverse takeover of Pendulum	1,166,666					1,166,666
Private placements	58,600,000					58,600,000
Acquisition of exploration permits	1,000,000					1,000,000
Issued for services	150,000					150,000
Issued on exercise of stock options	307,771		(112,771)			195,000
Share-based compensation			1,993,107			1,993,107
Share issue costs	(3,525,400)					(3,525,400)
Balance at December 31, 2010	68,110,645	-	2,132,585	789,146	(5,815,067)	65,217,309

See accompanying notes to the consolidated financial statements

PetroFrontier Corp.

CONSOLIDATION STATEMENT OF CASH FLOWS

(Canadian dollars)

	For the years ended December 31	
	2011	**2010**
Cash provided by (used in)		
OPERATING		
Net loss from continuing operations	(8,376,552)	(5,206,182)
Unrealized loss on marketable securities	7,935	-
Financial instruments	(40,198)	-
Stock based compensation (Note 15)	4,902,076	1,993,107
Deferred tax recovery	(768,599)	-
Non-cash general and administrative	-	150,000
Net finance income	(468,374)	(91,280)
Depreciation	25,651	513
Listing expense	-	878,338
	(4,718,061)	(2,275,504)
Change in non-cash working capital (note 16)	2,709,735	1,013,397
Cash flow from continuing operating activities	**(2,008,326)**	**(1,262,107)**
Cash flow from discontinued operations	**602,244**	-
Cash flow from operating activities	**(1,406,082)**	**(1,262,107)**
FINANCING		
Issuance of common shares net of share issue costs	-	55,362,928
Exercise of Pendulum agent's options	27,000	-
Issuance of common shares from exercise of stock options	690,747	195,000
Issuance of common shares from exercise of Pendulum stock options	69,998	-
Interest paid	(13,378)	(8,601)
	774,367	**55,549,327**
INVESTING		
Acquisitions, net of cash acquired	(8,858,137)	
Expenditure and evaluation expenditures	(26,630,986)	(6,560,451)
Corporate asset expenditures	(106,177)	(2,563)
Purchase of term deposits	(2,500,000)	-
Restricted cash (Note 5)	-	(58,467)
Interest received	471,520	99,881
Investing activities from continuing operations	(37,623,780)	(6,521,600)
Disposal of property, plant and equipment from discontinued operations	6,810,000	-
	(30,813,780)	**(6,521,600)**
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	93,532	(334,098)
Decrease in cash and cash equivalents	(31,351,963)	47,431,522
Cash and cash equivalents and term deposits, beginning of year	55,710,522	8,279,000
Cash and cash equivalents, end of year	**24,358,559**	**55,710,522**

See accompanying notes to the consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

PetroFrontier Corp. (the "Corporation") was incorporated in Alberta, Canada on February 6, 2009 under the name Australia Energy Corp. On December 31, 2010, the Corporation amalgamated with Pendulum Capital Corporation and filed articles of amalgamation to change its name to PetroFrontier Corp. The Corporation's registered office is 320, 715 – 5th Avenue S.W. Calgary, Alberta, Canada T2P 2X6. The Corporation is engaged in the business of international petroleum exploration in Northern Territory, Australia, through its two wholly owned subsidiaries, PetroFrontier (Australia) Pty Ltd ("PetroFrontier Australia") and Texalta (Australia) Pty Ltd ("Texalta Australia"). The consolidated financial statements of the Corporation as at and for the year ended December 31, 2011 comprises the Corporation, PetroFrontier Australia and Texalta Australia and unless otherwise indicated the term "Corporation" refers to both the Corporation and its wholly owned subsidiaries.

2. EXPLORATION STAGE CORPORATION

The Corporation is engaged primarily in the pursuit of petroleum and natural gas through exploration in the Northern Territory, Australia. Since inception, the efforts of the Corporation have been devoted to the pursuit of petroleum exploration licenses, land access agreements with aboriginal stakeholders, and initial stage seismic acquisition. During the year ended December 31, 2011, the Corporation drilled two exploration wells that it is waiting to complete in 2012. To date, the Corporation has not earned revenue from these operations and is considered to be in the exploration stage. The recoverability of the costs incurred to date is uncertain and dependent upon achieving commercial production or sale, the ability of the Corporation to obtain sufficient financing to fulfill its obligations under the petroleum exploration licenses and upon future profitable operations.

These consolidated financial statements have been prepared by management in accordance with accounting principles applicable to a going concern, which assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. At December 31, 2011, the Corporation had working capital of $22,663,020, a deficit of $14,150,245 and a net loss from continuing operations for the year ended December 31, 2011 of $8,376,552. The Corporation's petroleum licenses are in the exploration stage.

The Corporation is dependent upon obtaining sufficient financing to fulfill its obligations under its petroleum exploration licenses and upon future profitable operations. During December 2010, the Corporation closed a series of private placement offerings for gross proceeds of $58,500,000 through the issuance of 29,250,000 common shares of the Corporation at $2.00 per common share. With current working capital on hand, the Corporation expects to have adequate funding to provide for general operations and to meet the Corporation's minimum work requirements with the government of the Northern Territory of Australia for a period of at least 12 months.

3. BASIS OF PRESENTATION

A) Statement of compliance

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants. In 2010, the CICA Handbook was revised to incorporate IFRS as issued by the International Accounting Standards Board ("IASB"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Corporation commenced reporting on this basis in its 2011 consolidated financial statements. In these financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS. They are the Corporation’s first annual consolidated financial statements prepared in accordance with IFRS. Note 18 discloses the impact of the transition to IFRS on the Corporation’s reported equity as at December 31, 2010 and comprehensive income for the year ended December 31, 2010, including the nature and effect of significant changes in accounting policies from those used in the Corporation’s consolidated financial statements for the year ended December 31, 2010.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of December 31, 2011. On April 30, 2012 the Board of Directors approved the consolidated financial statements.

B) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except that the financial instruments held for trading are measured at fair value through profit or loss.

C) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Corporation’s functional currency. The functional currency of PetroFrontier Australia and Texalta Australia is the Australian dollar.

D) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 4 F) – valuation of exploration and evaluation costs

IAS 36 Impairment of Assets and *IFRS 6 Exploration of and Evaluation of Mineral Resources* require that a review for impairment be carried out if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Exploration and evaluation assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable and goodwill is tested for impairment at least annually. At this time, the recoverable amounts are determined with reference to fair value less cost to sell. The key assumptions for the value in use calculations are those regarding potential production flow rates and fiscal terms under the minimum work program commitments governing the Corporation's assets and expected changes to selling prices and direct costs during the period. These assumptions reflect management's best estimates based on historical experiences, past practices and expectations of future changes in the oil and gas industry.

Note 4 G) – business combinations and goodwill

The cost of an acquisition is measured as the cash paid and the fair value of other assets given, equity instruments issued and liabilities and contingent liabilities incurred or assumed at the date of exchange. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognized as goodwill. At the acquisition date, any goodwill is allocated to a cash generating unit ("CGU") or a group of CGUs expected to benefit from the combination's synergies.

Goodwill is initially measured at cost, which is the excess of the cost of the business combination over the Corporation's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities incurred and assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment at least annually. Any loss recognized is equal to the difference between the recoverable amount and the carrying value of the goodwill. Impairment losses are recognized, as identified, in the consolidated statements of comprehensive income and cannot be reversed.

Note 4 H) – provisions and contingencies

The Corporation recognizes a provision for decommissioning and site restoration costs expected to be incurred in order to abandon the wells drilled and to carry out site restoration work. The provisions are estimated taking into consideration existing technology and current prices after adjusting for expected inflation and discounted using rates reflecting current market assessments of the time value of money and where appropriate, the risks specific to the liability. The Corporation makes an estimate based on its experience and historical data (see note 14).

Note 4 L) – measurement of share-based payments

The Corporation issues stock options to certain directors, employees and third parties. In accordance with *IFRS 2 Share-based payments*, in determining the fair value of options granted, the Corporation has applied the Black-Scholes model and as a result makes assumptions for the expected volatility, expected life, riskfree rate, behavioral considerations and expected dividend yield. The fair value of options granted at December 31, 2011 is shown in note 15.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRSs, unless otherwise indicated.

The accounting policies have been applied consistently by the Corporation.

A) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Corporation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when the Corporation has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The accounting policies of subsidiaries have been changed when necessary to align with the policies adopted by the Corporation.

(ii) Jointly controlled operations

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Corporation controls and the liabilities that it incurs in the course of pursuing the joint operation and the expenses that the Corporation incurs and its share of the income that it earns from the joint operation.

(iii) Transactions eliminated on consolidation

All intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

B) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Corporation's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income in the cumulative translation account.

When a foreign operation is disposed of, the relevant amount in the cumulative amount of foreign currency translation differences is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the cumulative amount of foreign currency translation differences.

C) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

D) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments consist of cash and cash equivalents, accounts receivable, bank debt and accounts payable. Non-derivative financial instruments are recognized initially at fair value plus any direct attributable transaction costs unless the non-derivative financial instrument is designated at fair value through profit or loss. Subsequent measurement is then based on each financial instrument being classified into one of five categories; held for trading, held to maturity, loans and receivables, available for sale and other liabilities. The Corporation has measured its accounts receivable, bank debt and accounts payable at amortized cost using the effective interest rate method less any impairment losses. Cash and cash equivalents include cash on hand, term deposits held with banks and other short-term highly liquid investments.

(ii) Derivative financial instruments

Derivatives are recognized initially at fair value and attributable transaction costs are recognized in profit or loss as incurred. When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss.

E) Property, plant and equipment

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning liabilities, and borrowing costs for qualifying assets, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within oil and gas properties.

Depletion of oil and natural gas assets and depreciation of production equipment are calculated using the unit-of-production method, based on volumes of total proved and probable oil and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil. The depletable base includes all capitalized costs, estimated future development costs of proved and probable undeveloped reserves, and future estimated asset restoration costs. Computer and office equipment are recorded at cost and amortized on a declining basis using a rate of 20 – 50% per annum. Leasehold improvements are recorded at cost and amortized over the remaining term of the office lease or the estimated useful life, if shorter.

An asset within oil and gas properties is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period in which the item is derecognized.

The Corporation assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If any such indication of impairment exists, the Corporation makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (the CGU).

A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and its assets are written down to the CGU's recoverable amount. Value in use is generally computed by reference to the present value, using a pre-tax discount rate that reflects current market assessments of the time value of money, of the future cash flows expected to be derived from production of proven and probable reserves. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been objective evidence of a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

F) Exploration and evaluation assets

Exploration license and leasehold property acquisition costs, geological and geophysical costs and costs directly associated with an exploration well and appraisal activities are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the asset acquired. Intangible exploration costs do not include general prospecting or other evaluation costs incurred prior to receiving the legal rights to explore an area, which are expensed when incurred.

Exploration and evaluation costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the associated oil and gas interests. If no future activity is planned, the capitalized costs are expensed. Upon commercial viability, technical feasibility and internal approval for development, the related capitalized costs are first tested for impairment and then reclassified to property, plant and equipment. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved reserves are determined to exist.

G) Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the cash paid and the fair value of other assets given, equity instruments issued and liabilities and contingent liabilities incurred or assumed at the date of exchange. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognized as goodwill. At the acquisition date, any goodwill is allocated to a CGU or a group of CGUs expected to benefit from the combination's synergies.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is assessed for impairment annually at year end or more frequently if events occur that indicate a possible impairment. Impairment is determined by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the cash-generating unit or units with allocated goodwill is less than the carrying amount, an impairment loss of goodwill is recognized.

H) Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. Provisions are not recognized for future operating losses.

Decommissioning liabilities

The Corporation's activities give rise to dismantling, decommissioning and site disturbance remediation activities and a provision is made for the estimated cost associated with these activities and capitalized in the relevant asset category. Decommissioning liabilities are Management's best estimate of the future costs associated with removal, site restoration and asset retirement. The fair value of the liability for the Corporation's decommissioning liabilities is recorded in the period in which it is incurred, discounted to its present value using a risk-free interest rate and the corresponding amount is recognized by increasing the carrying amount of oil and gas properties. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is recognized as a finance cost in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost could also result in an increase or decrease to the provision. Actual costs incurred upon settlement of the decommissioning liabilities are charged against the provision to the extent of the liability recorded.

I) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The Corporation uses the balance sheet method for calculating deferred income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability and the carrying amount on the balance sheet are used to calculate deferred income tax assets or liabilities. Deferred income tax assets or liabilities are calculated using the currently enacted, or substantively enacted, tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. A deferred income tax asset is recognized if it is probable that future taxable profit will be available which the Corporation can utilize the benefit. The effect of a change in income tax rates on deferred income tax assets and liabilities is recognized in the period that the change occurs. Interpretation of tax regulations and legislations in the jurisdictions in which the Corporation operates are subject to change, as such income taxes are subject to measurement uncertainty.

J) Finance income and costs

Finance income comprises interest income on funds invested and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognized on financial assets and accretion on decommissioning liabilities. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

K) Per share amounts

The Corporation presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all potentially dilutive common shares, which comprise warrants and share options granted to employees.

L) Share-based compensation plan

The Corporation has a share-based compensation plan enabling officers, directors, employees and key consultants to purchase common shares at exercise prices equal to the price determined by the directors on the date the option is granted. Stock option awards are accounted for based on the fair value method of accounting (Note 15). Under this method, share-based compensation is recorded as an expense over the vesting period of the option, with a corresponding increase in contributed surplus. Share-based compensation is based on the estimated fair value of the related stock option at the time of the grant using the Black-Scholes option model, except for stock options granted to consultants that are revalued at subsequent reporting dates. The Black-Scholes option model is based on significant assumptions such as volatility, dividend yield and expected term. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. When stock options are exercised, the consideration paid to the Corporation, along with amounts previously credited to contributed surplus, is credited to share capital.

M) New standards and interpretations not yet adopted

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Corporation has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

(i) IFRS 9, Financial Instruments, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 with earlier transition options available.

(ii) IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation—Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements.

(iii) IFRS 11, Joint Arrangements, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

(iv) IFRS 12, Disclosure of Interests in Other Entities, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

(v) IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

(vi) There have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

(vii) IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in Other Comprehensive Income into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

(viii) IFRS 7, Financial Instruments: Disclosures, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted.

(ix) IAS 12, Income Taxes, was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner or recovery or settlement. SIC 21, Income Taxes - Recovery of Revalued Non-Depreciable Assets, will no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

5. RESTRICTED CASH

On June 15, 2010, PetroFrontier (Australia) deposited $1,500,000 (Australian) into PetroFrontier (Australia)'s lawyers' trust account as evidence that it has the financial capacity to complete its obligations under the Baraka Farmin Agreements. However, if the Corporation decides to cease operations under the Baraka Farmin Agreements this deposit is fully refundable. At December 31, 2010, $1,442,457 (Australian) had been refunded to the Corporation to fund future capital expenditures. At December 31, 2010, the trust account balance of $58,467 (Canadian equivalent) has been classified as restricted cash.

6. CASH AND CASH EQUIVALENTS

	December 31, 2011	December 31, 2010	January 1, 2010
Cash at bank and on hand	**11,774,340**	55,710,822	8,279,000
Short-term deposits	**12,584,219**	-	-
Cash and cash equivalents	**24,358,559**	55,710,822	8,279,000

7. TERM DEPOSITS

	December 31, 2011
Term Deposits ($)	**2,500,000**

Effective interest rate (%) on term deposits	**1.45**
Average number of days to maturity for term deposits	**270**

8. ACCOUNTS RECEIVABLE

	December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	**1,400,005**	730,140	10,919
Joint venture receivables	**-**	945,301	-
Allowance for doubtful accounts	**-**	-	-
Accounts receivable	**1,400,005**	1,675,441	10,919

9. ACQUISITIONS

Effective December 31, 2010, Pendulum acquired all of the issued and outstanding shares of AEC. As consideration, Pendulum issued 47,146,801 common shares on the basis of one Pendulum share for every one AEC share. Although the legal parent in the acquisition is Pendulum, the transaction under securities regulations and for accounting purposes deemed control to pass to the legal subsidiary, AEC, and accordingly, reverse takeover accounting applied (Note 15).

The transaction was accounted for by the purchase method based on fair values as follows:

	$
Net assets acquired:	
Cash	280,826
Other net working capital	7,502
	288,328
Consideration:	
Common shares	1,166,666
Listing expense	(878,338)
	288,328

The accounting for the 2010 acquisition of Pendulum, a reverse takeover transaction, changed with the adoption of IFRS. As Pendulum had no non-monetary assets at the time of the amalgamation with the Corporation previous Canadian GAAP required that the transaction be accounted for as a capital transaction with the accounting value of the equity issued for the acquisition being limited to the fair value of the net monetary assets of the acquired entity. IFRS standards require the acquisition to be accounted for at fair value with the excess of the consideration paid over the fair value of the net monetary assets acquired being reflected as a deemed transaction cost expense. The fair value of the common shares issued on the acquisition has been valued at $1,166,666 with the difference between the fair values of the consideration paid and the fair value of the acquired net monetary assets acquired, being $878,338, reflected as a 2010 listing expense.

On May 31, 2011, the Corporation acquired all of the issued and outstanding shares of Texalta Petroleum Ltd. ("Texalta"), a TSX Venture listed company with large resource potential for oil in the Arthur Creek Shale in the Georgina Basin, Northern Territory, Australia and oil assets focused in Saskatchewan, pursuant to a Plan of Arrangement under the *Business Corporations Act* (Alberta) (the "Texalta Arrangement").

The purchase price paid by the Corporation for all of Texalta's shares pursuant to the Texalta Arrangement was a total of 15,667,189 common shares of the Corporation, 675,000 warrants of the Corporation and $10 million in cash. The common shares issued were valued using the share price of the Corporation on May 31, 2011. The warrants issued were valued using the Black-Scholes pricing model (Note 15).

The goodwill recognized on acquisition is attributed to the strategic benefit that a large potential resource play for oil in the Arthur Creek Shale formation is expected to bring and attribute to expected future cash flows generated from the ability to unlock large resource potential through continued improvements in technology. None of the goodwill recognized is expected to be deductible for income tax purposes. The consolidated statement of comprehensive loss includes the results of operations for the period following the close of the transaction on May 31, 2011. These amounts have not been disclosed separately below as it is impracticable to do so as operations were consolidated on the acquisition date.
The Texalta Arrangement has been accounted for as a business combination using the acquisition method whereby the net assets acquired and the liabilities assumed are recorded at fair value. The following table summarizes the net assets acquired pursuant to the acquisition:

Fair value of net assets acquired	
Exploration and evaluation assets	59,009,550
Property, plant and equipment	7,146,967
Goodwill	9,773,469
Working capital	510,705
Decommissioning liabilities	(445,467)
Deferred tax liability	(17,137,048)
Total net assets acquired	58,858,176

Consideration	
Common shares issued	47,784,926
Warrants issued	1,073,250
Cash	10,000,000
Total purchase price	58,858,176

Corporate acquisition costs

For the year ended December 31, 2011, the Corporation incurred $1,173,087 of expenses related to the acquisition of Texalta. Corporate acquisition costs are expensed as incurred and are not part of the consideration transferred on completion of the acquisition.

Pro forma results

The pro forma results for the year ended December 31, 2011 are shown below, as if the acquisition had occurred on January 1, 2011. The impact of this acquisition attributable to net income is not determinable. Pro forma results are not indicative of actual results or future performance.

	Year ended December 31, 2011
Oil and natural gas sales	1,892,580
Crown and other royalties	(106,821)
Direct operating expenses	(325,135)

The net earnings from discontinued operations on the statement of comprehensive loss, for the year ended December 31, 2011 includes $916,190 of oil and natural gas sales attributable to the assets acquired since the acquisition date. The impact of this acquisition attributable to net income is not determinable. Oil sales, crown and other royalties and operating expenses presented in the discontinued operations (Note 10), for the year ended December 31, 2011, were generated from oil and natural gas assets located in Canada.

10. DISCONTINUED OPERATIONS

	Year Ended December 31, 2011
Revenue	
Oil and natural gas sales	**916,190**
Crown and other royalties	**(146,150)**
	770,040
Operating	**167,796**
Depletion, depreciation and accretion	**665,644**
Derecognition of goodwill	**768,599**
Gain on disposition of discontinued assets	**(873,373)**
	(728,666)
Net earnings from discontinued operations	**41,374**

On August 1, 2011, the Corporation disposed of certain non-core Canadian petroleum and natural gas properties located at Alameda, to an arm's length private company, for a cash purchase price of $50,000.

On September 8, 2011, the Corporation disposed of its non-core Canadian petroleum and natural gas properties located at Wordsworth and Queensdale in Southeast Saskatchewan, as well as exploration properties at Carlyle, Saskatchewan and Joarcam, Alberta, to another arm's length private company for a cash purchase price of $6,760,000. This disposition represented the sale of all of the Corporation’s remaining Canadian petroleum and natural gas properties acquired pursuant to its plan of arrangement with Texalta Petroleum Ltd. that closed on May 31, 2011 and as a result this disposition has been accounted for as a discontinued operation.

11. GOODWILL

	December 31, 2011	December 31, 2010
	($)	($)
Cost:		
Balance, January 1	-	-
Additions	9,773,469	-
Dispositions	(768,599)	
Foreign currency translation	(58,639)	-
Balance, December 31	**8,946,231**	**-**
Accumulated impairment losses:		
At January 1	**-**	**-**
Impairment losses recognized in the year	**-**	**-**
Balance, December 31	**-**	**-**
Net book value at December 31	**8,946,231**	**-**

During the year ended December 31, 2011, the Corporation recorded goodwill of $9,773,469 as part of the acquisition of Texalta. The goodwill recognized on this acquisition was attributed to the strategic benefit that a large potential resource play for oil in the Arthur Creek Shale formation is expected to bring and attribute to expected future cash flows generated from the ability to unlock large resource potential through continued improvements in technology. None of the goodwill recognized is expected to be deductible for income tax purposes.

As part of the Corporation's disposition of all of its Canadian petroleum and natural gas properties discussed above in note 10, goodwill was reduced by $768,599, which represented the amount of goodwill allocated to these assets upon acquisition pursuant to the Corporation's plan of arrangement with Texalta Petroleum Ltd. that closed on May 31, 2011.

Goodwill was assessed for impairment as at December 31, 2011. The recoverable amounts used to assess goodwill were determined using fair value less costs to sell. As at December 31, 2011 the fair value less costs to sell exceeded the aggregated carrying value of the goodwill. Accordingly, no impairment was recorded.

12. EXPLORATION AND EVALUATION AND CORPORATE ASSETS

	Exploration & Evaluation Assets ($)	Corporate Assets ($)
Cost:		
At December 31, 2010	10,213,926	2,563
Additions	86,240,896	106,177
At December 31, 2011	**96,454,822**	**108,740**
Accumulated depletion and depreciation:		
At December 31, 2010	-	(513)
Depletion and depreciation	-	(25,651)
At December 31, 2011	**-**	**(26,164)**
Net Book Value:		
At December 31, 2010	10,213,926	2,050
At December 31, 2011	**96,454,822**	**82,576**

During the year ended December 31, 2011, $53,401 relating to general and administrative expenses were capitalized.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2011	December 31, 2010	January 1, 2010
Accrued liabilities	**3,566,428**	469,753	46,738
Trade payables	**2,689,596**	2,294,755	31,609
	6,256,024	2,764,508	78,347

14. DECOMMISSIONING LIABILITIES

The total future decommissioning liabilities were estimated by management based on the expected costs to abandon and restore the well sites and the facilities and the estimated timing of costs to be incurred in future periods. The Corporation has estimated that the total undiscounted amount of cash flows required to settle its decommissioning liabilities at December 31, 2011 was $660,312 which will be incurred between 2012 and 2021. The Corporation used a risk free rate of 4.7% - 5.2% to calculate the present value of the decommissioning liabilities and an inflation rate of 3.6% was used to inflate the costs. Changes to the decommissioning liabilities were as follows:

	December 31, 2011
	($)
Balance, beginning of period	-
Liabilities incurred	598,137
Revision to estimates	(11,104)
Accretion	9,647
Balance, end of year	**596,680**

As at December 31, 2011, $96,000 of the $596,680 recorded as decommissioning liabilities was classified as current as the Corporation expects to incur these expenditures in the following year.

15. SHARE CAPITAL

A) Authorized

Unlimited number of common voting shares, no par value.
Unlimited number of preferred shares, no par value, issuable in series.

B) Issued – common shares of PetroFrontier

	Year Ended December 31, 2011		Year Ended December 31, 2010	
	Number of shares	**Amount ($)**	Number of shares	Amount ($)
Common Shares				
Balance, beginning of year	**47,730,134**	**68,110,645**	16,631,801	10,411,608
Private placement (i)	**-**	**-**	100,000	100,000
Issued upon acquisition of exploration permits (ii)	**-**	**-**	500,000	1,000,000
Shares issued for services (iii)	**-**	**-**	75,000	150,000
Private placements (iv)	**-**	**-**	29,250,000	58,500,000
Reverse takeover of Pendulum (v)	**-**	**-**	583,333	1,166,666
Share issue costs	**-**	**-**	-	(3,525,400)
Exercise of Pendulum agent's options (vi)	**22,500**	**27,000**	-	-
Exercise of stock options (vi)	**519,998**	**1,197,305**	590,000	307,771
Exercise of Pendulum stock options (vi)	**58,332**	**69,998**	-	-
Acquisition of outstanding shares of Texalta (Note 9)	**15,667,189**	**47,784,926**	-	-
Balance, end of period	**63,998,153**	**117,189,874**	**47,730,134**	**68,110,645**
Warrants				
Balance, beginning of year	**-**	**-**	-	-
Acquisition of outstanding warrants of Texalta (Note 9)	**675,000**	**1,073,250**	-	-
Balance, end of period	**675,000**	**1,073,250**	-	-

Issue of Common Shares

(i) On September 1, 2010, a director of AEC acquired 100,000 common shares at an issue price of $1.00 per common share for total proceeds of $100,000.

(ii) Effective October 7, 2010, the AEC entered into a purchase and sale agreement (the "NTO Agreement"), with Northern Territory Oil Pty. Ltd. ("NTO"), whereby AEC agreed to purchase (the "NTO Acquisition") NTO's entire 25% working interest in EP 127 and EP 128, which EP`s cover approximately 7.8 million gross acres before royalties of undeveloped land. Under the terms of the NTO Agreement, AEC agreed pay to NTO the sum of $2,000,000 ($1,000,000 by the payment of cash and $1,000,000 by the issuance of common shares). On December 31, 2010, the Corporation closed this acquisition, which resulted in the issuance of 500,000 common shares at $2.00 per common share.

(iii) On October 15, 2010, 75,000 AEC common shares valued at $2.00 per common share were issued to an arm's length third party as consideration for professional services rendered.

(iv) On December 8, 2010, AEC closed a brokered private placement for gross proceeds of $53,000,000 by issuing 26,500,000 subscription receipts of AEC at $2.00 per subscription receipt. The subscription receipts were automatically converted to common shares of the Corporation at no additional consideration, upon amalgamation with Pendulum. On December 22 and 29, 2010, AEC closed a non-brokered private placement for gross proceeds of $4,546,500 and $953,500 by issuing 2,273,250 and 476,750 common shares of AEC at $2.00 per common share.

(v) On December 31, 2010, AEC and Pendulum amalgamated. Under reverse takeover accounting, the authorized and issued share capital is that of Pendulum, while the stated value is that of AEC. Immediately following the amalgamation of Pendulum and AEC the name of the amalgamated company was changed to PetroFrontier Corp. The accounting for the 2010 acquisition of Pendulum, a reverse takeover transaction, changed with the adoption of IFRS. As Pendulum had no non-monetary assets at the time of the amalgamation with the Corporation previous Canadian GAAP required that the transaction be accounted for as a capital transaction with the accounting value of the equity issued for the acquisition being limited to the fair value of the net monetary assets of the acquired entity. IFRS standards require the acquisition to be accounted for at fair value with the excess of the consideration paid over the fair value of the net monetary assets acquired being reflected as a deemed transaction cost expense. The fair value of the common shares issued on the acquisition has been valued at $1,166,666 with the difference between the fair values of the consideration paid and the fair value of the acquired net monetary assets acquired, being $878,338, reflected as a 2010 listing expense.

(vi) For the year ended December 31, 2011, 22,500 Pendulum agent's options, 519,998 stock options and 58,332 Pendulum stock options were exercised having an average exercise price of $1.20, $1.33 and $1.20 per common share, respectively. For the year ended December 31, 2010, 590,000 stock options were exercised having an average exercise price of $0.33 per common share.

C) Stock options

Employees, officers, directors and consultants of the Corporation may be granted options to purchase common shares. Options granted have a term of five years to expiry and typically vest equally over a two year period on the basis of one-third on the date of grant, one-third on the first anniversary date of the grant, and one-third on the second anniversary date of the grant. The exercise price of each option equals the market price of the Corporation's common shares on the date of grant.

The following table summarizes the changes to the Corporation's option plan for the year ended December 31, 2011:

	Number of options	Weighted average price ($)
Balance, December 31, 2010	4,040,000	1.52
Granted	1,890,000	3.02
Exercised	(519,998)	1.33
Forfeited	(13,334)	2.79
Balance, December 31, 2011	**5,396,668**	**2.06**

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2011.

	Options outstanding			Options exercisable	
Exercise price	Number outstanding at period end	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at period end	Weighted average exercise price
$0.25	220,000	2.2	$0.25	220,000	$0.25
$1.00	1,110,001	3.2	$1.00	691,668	$1.00
$1.20	105,000	2.2	$1.20	105,000	$1.20
$2.00	2,196,667	4.0	$2.00	1,469,991	$2.00
$3.05	1,630,000	4.4	$3.05	639,980	$3.05
$3.09	35,000	4.2	$3.09	11,666	$3.09
$3.60	100,000	4.1	$3.60	33,333	$3.60
	5,396,668	**3.8**	**$2.06**	**3,171,638**	**$1.87**

In addition, there were 2,500 Pendulum agent`s options outstanding as at December 31, 2011 with strike price of $1.20 and a remaining contractual life of 0.6 years. No stock based compensation has been recorded for these options as all were fully vested at the time of the amalgamation and as such any associated stock based compensation was recorded as part of the reverse takeover accounting.

D) Stock Based Compensation

The Corporation accounts for its stock based compensation plan using the fair value method. Under this method, a compensation cost is charged over the vesting period for stock options granted to employees, officers, directors and consultants of the Corporation, with a corresponding increase to contributed surplus.

The following table summarizes the changes in contributed surplus:

	December 31, 2011 ($)	December 31, 2010 ($)
Balance, beginning of period	2,132,585	252,249
Stock based compensation expense	4,902,076	1,993,107
Exercise of stock options	(506,558)	(112,771)
Balance, end of period	**6,528,103**	**2,132,585**

The fair value of the options granted during the year ended December 31, 2011 was estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

Assumptions	December 31, 2011	December 31, 2010
Risk free interest rate (%)	2.33	2.26
Expected life (years)	5.0	5.00
Expected volatility (%)	102	104
Expected dividends	-	-
Weighted average fair value of options granted	**2.30**	**$1.34**

E) Per common share amounts

The basic weighted average number of common shares outstanding for the years ended December 31, 2011 and 2010 were 57,174,380 and 18,592,270. As the Corporation has recorded a loss for the years ended December 31, 2011 and 2010, no addition is made to the basic weighted average number of common shares when calculating diluted weighted average number of common shares as the diluted per common share amounts are anti-dilutive. For the years ended December 31, 2011 and 2010, 1,330,001 and 4,040,000 options that could potentially dilute basic earnings per share in the future were not included in the calculation of diluted earnings per share because they are antidilutive.

F) Accumulated Other Comprehensive Income

	December 31, 2011 ($)	December 31, 2010 ($)
Balance, beginning of period	789,146	285,608
Foreign exchange (gain)/loss on translation of foreign operations	(46,018)	503,538
Balance, end of period	**743,128**	**789,146**

G) Management of capital structure

The Corporation's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Corporation manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Corporation considers its capital structure to include shareholders' equity, bank debt and working capital, however as at December 31, 2011, the Corporation has no bank debt.

As the Corporation is in the development phase and has not yet generated funds from operations, it is unable to monitor capital based on the ratio of net debt to annualized funds generated from operations. Therefore the Corporation monitors capital based on the projected rate of capital spending and available funds on hand. In order to adjust the capital structure, the Corporation may from time to time issue shares and/or adjust its capital spending levels.

During December 2010, the Corporation closed a series of private placement offerings for gross proceeds of $58,500,000 through the issuance of 29,250,000 common shares of the Corporation at $2.00 per common share. With current working capital on hand, the Corporation has adequate funding to provide for general operations and to meet the Corporation’s minimum work requirements with the government of the Northern Territory of Australia for a period of at least 12 months.

16. Supplemental Cash Flow Information

Changes in non-cash working capital

	Year ended December 31, 2011 ($)	Year ended December 31, 2010 ($)
Accounts receivable	**275,436**	(1,664,522)
Prepaid expenses and deposits	**(345,587)**	(321,411)
Accounts payables and accrued liabilities	**3,491,516**	2,686,161
Working capital acquired	**(688,377)**	-
Other	**(23,253)**	313,169
Change in non-cash working capital	**2,709,735**	1,013,397

17. DEFERRED TAX LIABILITY

The recovery of income taxes differs from the amount computed by applying the combined statutory Canadian federal and provincial tax rates to losses before income taxes as follows:

	Year ended December 31, 2011 ($)	Period ended December 31, 2010 ($)
Net loss before discontinue operations and recovery	**(9,145,151)**	(5,206,182)
Statutory income tax rate	**26.5%**	28%
Expected recovery	**(2,423,465)**	(1,457,731)
Add (deduct):		
Non-deductible stock based compensation	**1,299,050**	558,070
Non-deductible corporate acquisition costs	**310,868**	-
Non-deductible listing expense	**-**	245,935
Impact of changes and differences in tax rates	**209,270**	5,440
Non taxable portion of capital gain	**(634,264)**	-
True up	**(54,997)**	-
Foreign tax rate differential	**(83,289)**	-
Other	**221,182**	-
Change in deferred tax benefits deemed not probable to be recovered	**387,046**	648,286
Deferred income tax recovery	**(768,599)**	-

The statutory rate was 26.5% in 2011 (2010 – 28.5%). The decrease from 2010 to 2011 was due to a reduction in the 2011 Canadian corporate tax rates as part of a series of corporate tax rate reductions previously enacted by the Canadian federal government in 2007.

The following is a summary of the Corporation's deferred tax liability as at December 31, 2011 and 2010:

	2011		2010	
Deferred income tax assets / (liabilities)	**Australia**	**Canada**	Australia	Canada
	($)	**($)**	($)	($)
Non-capital loss	**13,109,455**	**439,423**	3,070,982	675,692
Share issue costs	**-**	**660,213**	-	805,103
Exploration and evaluation assets and corporate assets	**(29,162,205)**	**165,002**	(2,823,982)	-
Unrecognized deferred tax assets	**(209,109)**	**(1,264,638)**	(247,000)	(1,480,795)
Total	**(16,261,859)**	**-**	-	-

The Corporation has temporary differences associated with its investments in foreign subsidiaries. As at December 31, 2011, the Corporation recorded a deferred tax liability of $16,261,859 in respect of these temporary differences.

The Corporation has non-capital losses as at December 31, 2011 of approximately $42.8 million (2010 - $10.2 million) in Australia which have no expiry and $1.8 million (2010 - $2.7 million) in Canada which expire between 2030 and 2031. The Corporation has share issue costs of approximately $2.6 million (2010 - $3.2 million) in Canada. Deferred tax assets have not been recognized in respect of all or a portion of these items because it is not probable that future taxable profit will be available against which the Corporation can utilize the benefits.

The following table summarizes the movement in the recognized and unrecognized deferred tax assets and liabilities during the year:

	January 1, 2010	Change in temporary difference	December 31, 2010
Non-capital loss	673,367	3,073,307	3,746,674
Share issue costs	128,613	676,490	805,103
Exploration and evaluation assets and corporate assets	(553,068)	(2,270,914)	(2,823,982)
Unrecognized deferred tax assets	(248,912)	(1,478,883)	(1,727,795)
	-	-	-

	January 1, 2011	**Change in temporary difference**	**Acquisition**	**December 31, 2011**
Non-capital loss	**3,746,674**	**9,802,204**	**-**	**13,548,878**
Share issue costs	**805,103**	**(144,890)**	**-**	**660,213**
Exploration and evaluation assets and corporate assets	**(2,823,982)**	**(9,804,772)**	**(16,368,449)**	**(28,997,203)**
Unrecognized deferred tax assets	**(1,727,795)**	**254,048**	**-**	**(1,473,747)**
	-	**106,590**	**(16,368,449)**	**(16,261,859)**

18. RECONCILIATIONS OF GAAP TO IFRS

As disclosed in note 3, these consolidated financial statements represent the Corporation's presentation of the financial results of operations and financial position under IFRS for the period ended December 31, 2011. As a result, the consolidated financial statements have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" as issued by the IASB. Previously, the Corporation prepared its annual consolidated financial statements in accordance with Canadian GAAP. IFRS 1 requires the presentation of comparative information as at the January 1, 2010 transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, IFRS 1 contains certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all IFRS.

IFRS 1 requires the presentation of comparative information as at the January 1, 2010 transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all IFRSs.
The following reconciliations present the adjustments made to the Corporation's Canadian GAAP financial results of operations and financial position to comply with IFRS 1. A summary of the significant accounting policy changes and applicable exemptions are discussed following the reconciliations.

Reconciliations include the Corporation's consolidated balance sheets as at January 1, 2010, and December 31, 2010 and the consolidated statements of comprehensive income (loss) for the year ended December 31, 2010.

***Share-based payment transactions* –** exemption applied: the Corporation has elected to use the option under IFRS 1 to revalue only those options that were unvested at January 1, 2010. All unvested options have been revalued under IFRS 2, Share-Based Payment.

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT JANUARY 1, 2010

	Notes	GAAP	IFRS Adjustments	IFRS
ASSETS				
Current				
Cash and cash equivalents		8,279,000	-	**8,279,000**
Accounts receivable		10,919	-	**10,919**
		8,289,919	-	**8,289,919**
Exploration and evaluation assets		2,129,008	-	**2,129,008**
		10,418,927	-	**10,418,927**
LIABILITIES				
Current				
Accounts payable and accrued liabilities		78,347	-	**78,347**
SHAREHOLDERS' EQUITY				
Share capital		10,411,608	-	**10,411,608**
Contributed surplus	**18A**	172,421	79,828	**252,249**
Accumulated other comprehensive income		285,608	-	**285,608**
Deficit	**18A**	(529,057)	(79,828)	**(608,885)**
		10,340,580	-	**10,340,580**
		10,418,927	-	**10,418,927**

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2010

	Notes	GAAP	IFRS Adjustments	IFRS
ASSETS				
Current				
Cash and cash equivalents		55,710,522	-	**55,710,522**
Restricted cash		58,467	-	**58,467**
Accounts receivable		1,675,441	-	**1,675,441**
Prepaid expenses and deposits		321,411	-	**321,411**
		57,765,841	-	**57,765,841**
Corporate assets		2,050	-	**2,050**
Exploration and evaluation assets		10,213,926	-	**10,213,926**
		67,981,817	-	**67,981,817**
LIABILITIES				
Current				
Accounts payable and accrued liabilities		2,764,508	-	**2,764,508**
SHAREHOLDERS' EQUITY				
Share capital	**18A, 18B**	67,238,959	871,686	**68,110,645**
Contributed surplus	**18A**	2,088,326	44,259	**2,132,585**
Accumulated other comprehensive income		789,146	-	**789,146**
Deficit	**18A, 18B**	(4,899,122)	(915,945)	**(5,815,067)**
		65,217,309	-	**65,217,309**
		67,981,817	-	**67,981,817**

RECONCILIATION OF CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS FOR THE YEAR ENDED DECEMBER 31, 2010

	Notes	GAAP	IFRS Adjustments	IFRS
EXPENSES				
General and administrative		2,425,504	**-**	**2,425,504**
Share-based compensation	**18A**	2,035,328	(42,221)	**1,993,107**
Depreciation		513	**-**	**513**
Listing expense	**18B**	**-**	878,338	**878,338**
Results from operating activities		4,461,345	836,117	**5,297,462**
Finance income		99,881	**-**	**99,881**
Finance costs		(8,601)	**-**	**(8,601)**
Net finance income		91,280	**-**	**91,280**
NET LOSS		(4,370,065)	(836,117)	**(5,206,182)**
OTHER COMPREHENSIVE EARNINGS				
Foreign exchange gain on translation of foreign operations		503,538	**-**	**503,538**
COMPREHENSIVE LOSS		(3,866,527)	(836,117)	**(4,702,644)**

Notes to the reconciliations

A. Share-based payments

Under Canadian GAAP, the Corporation recognized an expense related to share-based payments on a straight-line basis over the vesting period of the options. Under IFRS, the expense is calculated using graded vesting. The net result is an increase to contributed surplus and an increase to deficit.

B. Reverse takeover accounting

The accounting for the 2010 acquisition of Pendulum, a reverse takeover transaction, changed with the adoption of IFRS. As Pendulum had no non-monetary assets at the time of the amalgamation with the Corporation previous Canadian GAAP required that the transaction be accounted for as a capital transaction with the accounting value of the equity issued for the acquisition being limited to the fair value of the net monetary assets of the acquired entity. IFRS standards require the acquisition to be accounted for at fair value with the excess of the consideration paid over the fair value of the net monetary assets acquired being reflected as a deemed transaction cost expense. The fair value of the common shares issued on the acquisition has been valued at $1,166,666 with the difference between the fair values of the consideration paid and the fair value of the acquired net monetary assets acquired, being $878,338, reflected as a 2010 listing expense.

C. Statement of cash flows

The transition from Canadian GAAP to IFRS did not have a material impact on the consolidated statement of cash flows.

19. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The Corporation’s financial instruments recognized in the statement of financial position consist of cash and cash equivalents, term deposits, accounts receivable, accounts payable, accrued liabilities and foreign exchange forward contracts. The fair value of these financial instruments, except for foreign exchange forward contracts, approximates their carrying amounts due to their short terms to maturity.

As the foreign exchange forward contracts are designated as held-for-trading they are carried at fair value. The Corporation classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

The fair value of cash and cash equivalents, term deposits, accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to their short-terms to maturity.

Marketable securities are classified as level 1 within the fair value hierarchy and are recorded on the Corporation's statement of financial position at the fair value on the reporting date.

Forward foreign currency exchange rate contracts

The Corporation uses forward foreign currency exchange rate contracts in order to reduce its exposure to currency risks from fluctuations in the Canadian and Australian currencies. These contracts are classified as Level 2 within the fair value hierarchy and are recorded on the Corporation's statement of financial position as an asset or liability based on reporting date fair values. During the year ended December 31, 2011 the Corporation recorded a gain on financial instruments of $221,966. As at December 31, 2011, the Corporation had a total of 2 forward foreign currency exchange rate contracts with the following terms:

AUD bought ($)	CAD sold ($)	Average Rate (%)	Date of Maturity	Mark to Market Fair Value
1,250,000	1,258,375	100.670	January 18, 2012	(40,198)

Credit risk

As the Corporation is currently in the exploration phase, accounts receivable is limited to amounts largely pertaining to joint venture receivables and income tax credits on goods and services taxes in Australia and in Canada which are subject to normal credit risks.

Currency risks

The Corporation is exposed to exchange rate fluctuations in relation to amounts due to services it must purchase in foreign currencies including the Australian and United States dollars. As at December 31, 2011, the Corporation's cash and cash equivalents included $7,087,931 denominated in Australian dollars. A decrease or increase of one percent to the Australia / Canada foreign exchange rate would have decreased or increased the other comprehensive loss by $70,879 for the year ended December 31, 2011. Management continually monitors the Corporation's currency risk and believes this exposure is not material to its overall operations. The Corporation uses forward foreign currency exchange rate contracts in order to reduce its exposure to currency risks from fluctuations in the Canadian and Australian currencies.

Interest rate risk

At December 31, 2011, the Corporation had no outstanding bank debt and is not exposed to interest rate risk at this time.

Liquidity risk

Liquidity risk relates to the risk the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The financial liabilities on its statement of financial position are limited to accounts payable and accrued liabilities, all of which are current in nature. The Corporation anticipates it will continue to have adequate liquidity to fund its existing financial liabilities and ongoing operating and general administrative expenses through its existing working capital. The pace of future capital investment and the related financial liabilities incurred from the capital investment program will be dependent upon the Corporation's capacity to secure additional equity financing on favorable terms. The Corporation had no defaults or breaches on any of its financial liabilities. The Corporation expects to satisfy obligations under accounts payable in less than one year.

Market risk

Market risk is comprised of currency risk, interest rate risk and other price risks which consist primarily of fluctuations in petroleum and natural gas prices. With no bank debt as at December 31, 2011 there is no direct exposure to fluctuations in interest rates. As the Corporation is in the exploration stage, fluctuations in commodity prices bear no direct risk to the Corporation's revenue, however adverse fluctuations in interest rates, exchange rates and commodity prices may indirectly affect the Corporation's ability to obtain equity financing and future bank debt, if required, and on favorable terms.

20. RELATED PARTY TRANSACTIONS

In accordance with the terms of an Administrative Services Agreement ("ASA"), Rodinia Oil Corp. ("Rodinia") provides certain administrative services and office accommodations to the Corporation on a cost recovery basis. Rodinia and the corporation share five common directors and three common executives. ASA charges are recorded to general and administrative expenses in the Corporation's financial statements. For the year ended December 31, 2011, Rodinia charged $592,455 of ASA expense, respectively. Included in accounts payable as at December 31, 2011, is a $158,228 payable to Rodinia.

21. COMMITMENTS AND CONTINGENCIES

EP 103 Minimum Work Plan Commitment

In accordance with the terms of the EP 103 agreement with the government of the Northern Territory of Australia, the Corporation has the following minimum work commitments and timelines:

Year	Start	End	Minimum work requirements	Status as at December 31, 2011
Year 4	May 21, 2011	May 20, 2012	Drill one exploration well	Completed
Year 5	May 21, 2012	May 20, 2013	Drill one exploration well	Outstanding

EP 104 Minimum Work Plan Commitment

In accordance with the terms of the EP 104 agreement with the government of the Northern Territory of Australia, the Corporation has the following minimum work commitments and timelines:

Year	Start	End	Minimum work requirements	Status as at December 31, 2011
Year 4	May 21, 2011	May 20, 2012	Drill one exploration well	Outstanding
Year 5	May 21, 2012	May 20, 2013	Drill one exploration well	Outstanding

The Corporation has requested a four month extension of its Year 4 minimum work commitments for EP 104 with the government of the Northern Territory, Australia. The Corporation's management has received positive feedback from the regulator and is confident it will be granted the extension due to the fact it has committed and incurred capital expenditures on EP 103, EP 104 and EP 127 that substantially exceed the government's minimum requirements. There can be no assurance that the steps management is taking will be successful.

Baraka Farmin Agreements

On April 1, 2010, the Corporation entered into two farmin agreements (the "Baraka Farmin Agreements") with Baraka Energy and Resources Limited (previously known as Baraka Petroleum Limited) ("Baraka), pursuant to which the Corporation earned a 50% working interest in 7.8 million gross undeveloped acres before royalties (3.9 million net) in EP 127 and EP 128 in the Northern Territory, Australia. These exploration permits offset the Corporation's EP 103 and EP 104 to the north, west and south in the Southern Georgina Basin. The Corporation will be the Operator under the Baraka Farmin Agreements.

Under the terms of the Baraka Farmin Agreements, the Corporation is required to:

i) meet the minimum (governmental) work commitments on EP127 and EP128 for the year 3 work program (beginning in June 2010), being the "acquisition of seismic data";
ii) commence the drilling of one horizontal well into the basal Arthur Creek Shale zone on either of EP127 or EP128 by the first day of the 6th month of the year 3 work program; and
iii) commission a resource evaluation report in respect of EP127 and/or EP128, to be prepared by a reputable engineering firm of Georgina's choice, before the date that is 4 months after the date of the Baraka Farmin Agreement.

As at December 31, 2011, the Corporation had completed requirement iii) above under the Baraka Farmin Agreements. The remaining commitments under the Baraka Farmin Agreement will be met in accordance with the EP 127 and EP 128 Minimum Work Plan Commitments below.

EP 127 Minimum Work Plan Commitments

In accordance with the terms of the EP 127 agreement with the government of the Northern Territory, Australia, the Corporation has the following minimum work commitments and timelines:

Year	Start	End	Minimum work requirements	Status as at December 31, 2011
Year 4	December 14, 2011	December 13, 2012	Acquire seismic data	Outstanding
Year 5	December 14, 2012	December 13, 2013	Drill one well to 600m Contingent on Year 4 drilling, drill two wells to 600m or one well to 1,200m	Outstanding

EP 128 Minimum Work Plan Commitments

In accordance with the terms of the EP 128 agreement with the government of the Northern Territory, Australia, the Corporation has the following minimum work commitments and timelines:

Year	Start	End	Minimum work requirements	Status as at December 31, 2011
Year 3	June 14, 2010	June 13, 2012	Acquire seismic data	Outstanding
Year 4	December 14, 2011	December 13, 2012	Acquire seismic data Contingent on seismic results, drill one well to 600m or one well to 1,200m	Outstanding
Year 5	December 14, 2012	December 13, 2013	Drill one well to 600m Contingent on Year 4 drilling, drill two wells to 600m or one well to 1,200m	Outstanding

The Corporation has requested a suspension and variation of its Year 3 minimum work commitments with the government of the Northern Territory, Australia for EP 128 in order to acquire seismic data in late 2012. The Corporation's management has received positive feedback from the regulator and is confident it will be granted the suspension and variation due to the fact it has committed and incurred capital expenditures on EP 103, EP 104 and EP 127 that substantially exceed the government's minimum requirements. There can be no assurance that the steps management is taking will be successful.

As at December 31, 2011, the Corporation had the following material contracts and commitments:

	Total	2012	2013	2014	2015	2016
EP 103 minimum commitments	**518,995**	-	518,995	-	-	-
EP 104 minimum commitments	**1,037,990**	518,995	518,995	-	-	-
EP 127 minimum commitments	**3,446,128**	2,823,334	622,794	-	-	-
EP 128 minimum commitments	**1,505,086**	882,292	622,794	-	-	-
Leases	**258,750**	134,451	102,761	21,538	-	-
	6,766,949	**4,359,072**	**2,386,339**	**21,538**	**-**	**-**

During the year ended December 31, 2011, the Corporation expensed $32,738 relating to operating leases it maintained throughout the year.

As at December 31, 2011, through the normal course of business the Corporation had an outstanding dispute with a third party service provider that in aggregate totaled $1,270,844. In management's opinion these charges are unsubstantiated and therefore have not been accrued.

22. SEGMENTED INFORMATION

The Corporation has a foreign subsidiary and the following geographical segmented information is provided:

	Year ended December 31, 2011		Year ended December 31, 2010	
	Canada	**Australia**	**Canada**	**Australia**
EXPENSES				
General and administrative	**1,519,121**	**2,332,495**	1,494,402	931,102
Loss on marketable securities	**7,935**	**-**	-	-
Foreign exchange gain	**(124,874)**	**-**	-	-
Financial derivative instruments (Note 19)	**(221,966)**	**-**	-	-
Share-based compensation (Note 15)	**4,902,076**	**-**	1,993,107	-
Depreciation	**1,211**	**24,440**	513	-
Corporate acquisition costs	**1,173,087**	**-**	-	-
Listing expense	**-**	**-**	878,338	-
Results from operating activities	**7,256,590**	**2,356,935**	4,366,360	931,102
Finance income	**438,553**	**52,846**	29,654	70,227
Finance costs	**(2,784)**	**(20,241)**	(1,230)	(7,371)
Net finance income	**435,769**	**32,605**	28,424	62,856
Net loss before taxes	**(6,820,821)**	**(2,324,330)**	(4,337,936)	(868,246)
Deferred tax recovery (Note 17)	**768,599**	**-**	-	-
Net loss from continuing operations	**(6,052,222)**	**(2,324,330)**	(4,337,936)	(868,246)
Net earnings from discontinued operations (Note 10)	**41,374**	**-**	-	-
NET LOSS	**(6,010,848)**	**(2,324,330)**	(4,337,936)	(868,246)
Exploration and evaluation assets (end of year)	**-**	**96,454,822**	-	10,213,926
Exploration and evaluation expenditures	**-**	**26,630,986**	-	6,560,451
Total assets (end of year)	**26,508,372**	**107,990,300**	54,541,103	13,440,714

23. COMPENSATION OF KEY MANAGEMENT PERSONNEL

Key management personnel compensation, including directors, is as follows:

	Year ended December 31	
	2011	**2010**
Salaries, directors fees and other benefits	**1,013,932**	968,462
Severance	**280,000**	-
Share-based compensation	**3,094,813**	1,587,984
	4,388,745	2,556,446

Key management personnel are comprised of the Corporation's directors and executive officers.

23. EXPENSES BY NATURE

The main components of the Corporations general and administrative expenditures are as follows:

	Year ended December 31	
	2011	**2010**
Salaries and benefits	**2,350,276**	882,409
Office costs	**599,655**	1,260,979
Professional fees	**426,205**	136,897
Corporate and regulatory	**539,730**	141,638
Other	**19,005**	3,581
Overhead recoveries	**(83,255)**	-
	3,851,616	2,425,504

25. SUBSEQUENT EVENTS

On January 16, 2012, the Corporation announced that it had retained Macquarie Capital Markets Canada Ltd. as its exclusive advisor to assist the Corporation in seeking a suitable joint venture partner.

On January 24, 2012, the Corporation announced that it had contracted Rig #918 with Ensign Australia Pty Ltd, a subsidiary of Ensign International Energy Services for the drilling of two wells in the Southern Georgina Basin.

On February 1, 2012, the Corporation announced that it had appointed Earl Scott as Chief Operating Officer of the Corporation and President of the Corporation's two wholly-owned subsidiaries. In conjunction with Mr. Scott's appointment, the Corporation granted him options to purchase 500,000 common shares at a price of $1.99 per share.

On March 5, 2012, the Corporation announced that it had been awarded two exploration permit applications in the western part of the Southern Georgina Basin totalling approximately 939,000 acres.

NOTES *(continued)*

Directors
Robert J. Iverach
Chairman of the Board of Directors
Calgary, Alberta

Paul J. Bennett
Chief Executive Officer
PetroFrontier Corp.
Calgary, Alberta

Martin P. McGoldrick
Businessman
Calgary, Alberta

Kent Jespersen
Businessman
Calgary, Alberta

Dr. James W. Buckee
Businessman
Wiltshire, UK

Al Kroontje
Businessman
Calgary, Alberta

Donald Rae
Businessman
Calgary, Alberta

Officers
Paul J. Bennett
Chief Executive Officer

Shane J. Kozak
Vice President Finance and
Chief Financial Officer

Earl Scott
Chief Operating Officer

Richard Parkes
Vice President Operations

Corporate Head Office
320, 715 – 5th Avenue S.W.
Calgary, Alberta
T2P 2X6
Telephone: (403) 718-0366
Facsimile: (403) 718-3888

Bankers
HSBC
Corporate Banking
Canada Trust Tower
407, 8th Avenue S.W.
Calgary, Alberta
T2P 1E5

Trustee and Transfer Agent
Olympia Trust Company
Calgary, Alberta

Solicitors
Burstall Winger LLP
Suite 1600 - Dome Tower
333 – 7th Ave SW
Calgary, Alberta
T2P 2Z1

Auditors
PricewaterhouseCoopers LLP.
Suite 3100-111 5 Ave SW
Calgary, Alberta
T2P 3Y9