PetroFrontier

Condensed Consolidated Interim Financial Statements as at and for the Three & Six Months Ended June 30, 2012 and 2011

(Unaudited)

PetroFrontier Corp.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

(Canadian Dollars)

As at	**June 30, 2012**	**December 31, 2011**
ASSETS		
Current		
Cash and cash equivalents (note 4)	14,725,787	24,358,559
Term deposits	-	2,500,000
Marketable securities	20,279	49,284
Financial derivative instruments (note 11)	95,675	40,198
Accounts receivable (note 5)	6,105,738	1,400,005
Prepaid expenses and deposits (note 6)	2,933,377	666,998
	23,880,856	29,015,044
Corporate assets	70,153	82,576
Exploration and evaluation assets (note 7)	103,646,383	96,454,822
Goodwill	8,977,793	8,946,231
	136,575,185	**134,498,673**
LIABILITIES		
Current		
Accounts payable and accrued liabilities	9,882,875	6,256,024
Decommissioning liabilities	96,000	96,000
	9,978,875	6,352,024
Decommissioning liabilities	989,142	500,680
Deferred tax liability	16,319,229	16,261,859
	27,287,246	23,114,563
SHAREHOLDERS' EQUITY		
Share capital (note 8)	117,217,234	117,189,874
Warrants (note 8)	-	1,073,250
Contributed surplus	8,572,648	6,528,103
Accumulated other comprehensive income	1,355,240	743,128
Deficit	(17,857,183)	(14,150,245)
	109,287,939	111,384,110
	136,575,185	**134,498,673**

See accompanying notes to the condensed consolidated interim financial statements

Commitments and contingencies (note 13)

Subsequent Events (note 15)

PetroFrontier Corp.

CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

(Unaudited)

(Canadian Dollars)

	Three months ended June 30		Six months ended June 30	
	2012	**2011**	**2012**	**2011**
EXPENSES				
General and administrative	**1,852,541**	748,828	**2,830,731**	1,497,472
Loss on marketable securities	**12,494**	6,813	**29,003**	6,813
Foreign exchange loss	**277,700**	6,611	**155,231**	6,611
Financial instruments (Note 11)	**(132,553)**	34,012	**(150,631)**	34,012
Share-based compensation (Note 8)	**105,827**	2,162,256	**980,655**	2,937,827
Depreciation	**13,351**	128	**26,025**	254
Corporate acquisition costs	**-**	859,745	**-**	1,155,590
Results from operating activities	**2,129,360**	3,818,393	**3,871,014**	5,638,579
Finance income	**94,589**	151,758	**187,077**	273,646
Finance costs	**(15,871)**	(4,069)	**(23,001)**	(5,898)
Net finance income	**78,718**	147,689	**164,076**	267,748
NET LOSS BEFORE TAXES	**(2,050,642)**	(3,670,704)	**(3,706,938)**	(5,370,831)
Deferred tax recovery	**-**	768,599	**-**	768,599
Net loss from continuing operations	**(2,050,642)**	(2,902,105)	**(3,706,938)**	(4,602,232)
Net loss from discontinued operations (Note 9)	**-**	(3,923)	**-**	(3,923)
NET LOSS	**(2,050,642)**	(2,906,028)	**(3,706,938)**	(4,606,155)
OTHER COMPREHENSIVE EARNINGS				
Foreign exchange gain on translation of foreign operations	**946,386**	474,134	**612,112**	322,933
COMPREHENSIVE LOSS	**(1,104,256)**	(2,431,894)	**(3,094,826)**	(4,283,222)
Net loss per share Basic and diluted (Note 8)	**(0.03)**	(0.05)	**(0.06)**	(0.09)

PetroFrontier Corp.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

(Canadian Dollars)

	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance at January 1, 2012	**117,189,874**	**1,073,250**	**6,528,103**	**743,128**	**(14,150,245)**	**111,384,110**
Net loss					(3,706,938)	(3,706,938)
Foreign exchange gain on translation of foreign operations				612,112		612,112
Issued on exercise of stock options	27,360		(9,360)			18,000
Expiry		(1,073,250)	1,073,250			-
Share-based compensation			980,655			980,655
Balance at June 30, 2012	**117,217,234**	**-**	**8,572,648**	**1,355,240**	**(17,857,183)**	**109,287,939**

Balance at January 1, 2011	68,110,645	-	2,132,585	789,146	(5,815,067)	65,217,309
Net loss					(4,606,155)	(4,606,155)
Foreign exchange gain (loss) on translation of foreign operations				322,933		322,933
Issued on exercise of Pendulum agent's options	27,000					27,000
Issued for shares of Texalta Petroleum Ltd.	47,784,926	1,073,250				48,858,176
Issued on exercise of stock options	259,734		(113,067)			146,667
Share-based compensation			2,937,827			2,937,827
Balance at June 30, 2011	116,182,305	1,073,250	4,957,345	1,112,079	(10,421,222)	112,903,757

See accompanying notes to the condensed consolidated interim financial statements

PetroFrontier Corp.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Cash provided by (used in)				
OPERATING				
Net loss from continuing operations	**(2,050,642)**	(2,902,105)	**(3,706,938)**	(4,602,232)
Unrealized loss on marketable securities	**12,494**	6,813	**29,003**	6,813
Financial instruments	**(95,675)**	34,012	**(55,478)**	34,012
Depreciation	**13,351**	128	**26,025**	254
Share-based compensation	**105,827**	2,162,256	**980,655**	2,937,827
Net finance income	**(78,718)**	(147,689)	**(164,076)**	(267,748)
Deferred tax recovery	**-**	(768,599)	**-**	(768,599)
	(2,093,363)	(1,615,184)	**(2,890,809)**	(2,659,673)
Change in non-cash working capital (Note 10)	**3,483,858**	748,312	**(3,501,143)**	229,305
Cash flow from continuing operating activities	**1,390,495**	(866,872)	**(6,391,952)**	(2,430,368)
Cash flow from discontinued operations	**-**	163,002	**-**	163,002
Cash flow from operating activities	**1,390,495**	(703,870)	**(6,391,952)**	(2,267,366)
FINANCING				
Exercise of Pendulum agent's options	**-**	-	**-**	27,000
Issuance of common shares from exercise of stock options	**18,000**	146,666	**18,000**	146,667
Interest paid	**(7,407)**	(4,069)	**(8,467)**	(5,899)
	10,593	142,597	**9,533**	167,768
INVESTING				
Acquisition, net of cash acquired	**-**	(8,858,137)	**-**	(8,858,137)
Exploration and evaluation expenditures	**(5,328,924)**	(3,881,144)	**(6,137,854)**	(5,042,353)
Corporate asset expenditures	**(8,966)**	(4,239)	**(13,602)**	(4,239)
Term deposits	**-**	-	**2,500,000**	-
Interest received	**94,589**	201,037	**187,077**	270,675
	(5,243,301)	(12,542,483)	**(3,464,379)**	(13,634,054)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	**115,696**	90,298	**214,026**	77,108
Decrease in cash and cash equivalents	**(3,726,517)**	(13,013,458)	**(9,632,772)**	(15,656,544)
Cash and cash equivalents, beginning of the period	**18,452,304**	53,067,436	**24,358,559**	55,710,522
Cash and cash equivalents and term deposits, end of the period	**14,725,787**	40,053,978	**14,725,787**	40,053,978

See accompanying notes to the condensed consolidated interim financial statements

NOTES TO CONDENSED CONSOLIDATED INTERIM 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"). These condensed consolidated interim financial statements of the Corporation as at and for the three and six months ended June 30, 2012 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. In 2012, the Corporation has completed the drilling of the horizontal section in one of the wells that was drilled in 2011 and is currently drilling another horizontal well. Following the drilling operations, depending on availability of capital all three wells will be stimulated in 2012. If the Corporation is unable to obtain sufficient financing to conduct the full capital program, the Corporation has the ability to curtail its capital expenditure programs.

On June 20, 2012, the Corporation entered into a binding farm-in agreement (the "Farm-in Agreement") with Statoil Australia Oil and Gas AS ("Statoil"), a wholly-owned subsidiary of Statoil ASA of Norway, effective January 1, 2012. Pursuant to the terms of the Farm-in Agreement, Statoil will have the option to earn up to 65% of the Corporation's working interests in EP 103, EP 104, EP 127 and EP 128 and in EPA 213 and EPA 252 in exchange for exploration program related payments and carried costs of up to US$210.0 million over three phases.

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 condensed consolidated interim 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 June 30, 2012, the Corporation had working capital of $13,901,981, a deficit of $17,857,183 and a net loss from continuing operations for the three and six months ended June 30, 2012 of $2,050,642 and $3,706,938. 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. On July 11, 2012, the Corporation announced that it had received a notice of termination from Macquarie Capital Markets Canada Ltd. ("Macquarie") terminating its obligations pursuant to the Underwriting Agreement made effective June 20, 2012 (the "Underwriting Agreement"), whereby Macquarie had agreed to purchase on a bought deal basis 15,000,000 subscription receipts at a price of $1.00 per subscription receipt. As such, the Corporation intends to raise additional capital during Q3 or Q4 of 2012 in order to expand the Corporation's operations and capital expenditure programs beyond the minimum work requirements.

3. BASIS OF PRESENTATION

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in section I of the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"); which requires publicly accountable enterprises to prepare their financial statements using International Financial Reporting Standards ("IFRS").

These condensed consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, IAS 34 – *Interim financial reporting ("IAS 34").*

The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and outstanding as of August 28, 2012, the date the condensed consolidated interim financial statements were approved by the Corporation's Audit Committee for issuance.

These condensed consolidated interim financial statements should be read in conjunction with the Corporation's 2011 annual consolidated financial statements.

As indicated in note 1 above, these condensed consolidated interim financial statements of the Corporation as at and for the three and six months ended June 30, 2012 comprise the Corporation, PetroFrontier Australia and Texalta Australia.

These condensed consolidated interim 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.

These condensed consolidated interim 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.

4. CASH AND CASH EQUIVALENTS

	June 30, 2012 ($)	**December 31, 2011 ($)**
Cash at bank and on hand	**14,725,787**	11,774,340
Short-term deposits	**-**	12,584,219
Cash and cash equivalents	**14,725,787**	24,358,559

5. ACCOUNTS RECEIVABLE

	June 30, 2012 ($)	December 31, 2011 ($)
Trade receivables	**632,521**	1,400,005
Joint venture receivables	**5,473,217**	-
Allowance for doubtful accounts	**-**	-
Accounts receivable	**6,105,738**	1,400,005

The substantial increase in joint venture receivables as at June 30, 2012 as compared to December 31, 2011 is due to amounts accrued as receivable from Statoil that have not yet been invoiced. Subsequent to quarter end Statoil contributed US$15.0 million into a trust account to fund its share of joint operations, which effectively eliminates all credit risk associated with this balance.

6. PREPAID EXPENSES AND DEPOSITS

	June 30, 2012 ($)	December 31, 2011 ($)
Deposits on capital expenditures	**2,908,716**	629,621
Rent, insurance and other	**24,661**	37,377
Prepaid expenses and deposits	**2,933,377**	666,998

As at June 30, 2012, the Corporation had a deposit for $2,184,090 (Australian dollars) paid to a third party to secure a drilling rig for the 2012 drilling program. The Corporation also paid $500,000 (Australian dollars) to the Northern Territory government pertaining to various environmental and abandonment deposits. In addition, $100,000 (Australian dollars) was paid as a deposit in conjunction with the Baraka Farmin Agreements that will be returned to the Corporation upon satisfaction of the farm-in commitments.

7. EXPLORATION AND EVALUATION ASSETS

	Exploration & Evaluation Assets ($)
Cost:	
At December 31, 2011	96,454,822
Additions	7,191,561
At June 30, 2012	**103,646,383**
Net Book Value:	
At December 31, 2011	96,454,822
At June 30, 2012	**103,646,383**

Exploration and evaluation assets were assessed for impairment and no impairment indicators existed as at June 30, 2012.

8. 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

	Six months Ended June 30, 2012		Year Ended December 31, 2011	
	Number of shares	**Amount ($)**	**Number of shares**	**Amount ($)**
Common Shares				
Balance, beginning of year	**63,998,153**	**117,189,874**	47,730,134	68,110,645
Exercise of Pendulum agent's options (vi)	**-**	**-**	22,500	27,000
Exercise of stock options (vi)	**18,000**	**27,360**	519,998	1,197,305
Exercise of Pendulum stock options (vi)	**-**	**-**	58,332	69,998
Acquisition of outstanding shares of Texalta	**-**	**-**	15,667,189	47,784,926
Balance, end of period	**64,016,153**	**117,217,234**	63,998,153	117,189,874
Warrants				
Balance, beginning of year	**675,000**	**1,073,250**	-	-
Expiry	**675,000**	**(1,073,250)**		
Acquisition of outstanding warrants of Texalta	**-**	**-**	675,000	1,073,250
Balance, end of period	**-**	**-**	675,000	1,073,250

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 three and six months ended June 30, 2012:

	Number of options	**Weighted average price ($)**
Balance, December 31, 2011	5,396,668	2.06
Granted	500,000	1.99
Exercised	(18,000)	1.00
Forfeited	(1,230,335)	2.21
Balance, June 30, 2012	**4,648,333**	**2.02**

The following table summarizes stock options outstanding and exercisable under the plan at June 30, 2012.

	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	1.7	$0.25	220,000	$0.25
$1.00	863,334	2.6	$1.00	798,333	$1.00
$1.20	105,000	1.7	$1.20	105,000	$1.20
$1.99	500,000	4.6	$1.99	250,000	$1.99
$2.00	1,654,999	3.5	$2.00	1,126,658	$2.00
$3.05	1,170,000	3.9	$3.05	824,995	$3.05
$3.09	35,000	3.7	$3.09	23,333	$3.09
$3.60	100,000	3.6	$3.60	100,000	$3.60
	4,648,333	**3.3**	**2.02**	**3,448,319**	**1.94**

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 fair value of the options granted during the six months ended June 30, 2012 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	**June 30, 2012**	**December 31, 2011**
Risk free interest rate (%)	1.25	2.33
Expected life (years)	5.05	5.0
Expected volatility (%)	106	102
Expected dividends	-	-
Weighted average fair value of options granted ($)	**1.54**	**2.30**

E) Per common share amounts

The basic weighted average number of common shares outstanding for the three and six months ended June 30, 2012 and 2011 were 64,015,362 and 64,006,805. As the Corporation has recorded a loss for the three and six months ended June 30, 2012 and 2011, 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 three and six months ended June 30, 2012 and 2011 1,188,334 and 5,756,667 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.

NOTES *(continued)*

F) 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 June 30, 2012, the Corporation has no bank debt.

As the Corporation is in the exploration 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. However, the Corporation intends to raise additional capital during Q3 or Q4 of 2012 in order to expand the Corporation's operations and capital expenditure programs beyond the minimum work requirements.

9. DISCONTINUED OPERATIONS

	Three and six months ended June 30, 2011
Revenue	
Oil and natural gas sales	**251,563**
Crown and other royalties	**(36,750)**
	214,813
Operating	**51,811**
Depletion, depreciation and accretion	**166,925**
	(218,736)
Net loss from discontinued operations	**(3,923)**

On August 1, 2011, the Corporation disposed of certain non-core Canadian petroleum and natural gas properties located at Alameda in Saskatchewan, 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 retroactively accounted for as a discontinued operation.

10. Supplemental Cash Flow Information

Changes in non-cash working capital

	Three month ended June 30		**Six month ended June 30**	
	2012	2011	**2012**	2011
	$	$	**$**	$
Restricted cash	**-**	57,891	**-**	58,467
Accounts receivable	**(5,645,652)**	(181,406)	**(4,705,733)**	298,061
Prepaid expenses and deposits	**1,550,667**	(138,745)	**(2,266,379)**	(188,544)
Accounts payables and accrued liabilities	**7,515,955**	1,792,853	**3,626,851**	787,713
Working capital acquired	**-**	(688,379)	**-**	(688,379)
Other	**62,888**	(93,902)	**(155,882)**	(38,013)
Change in non-cash working capital	**3,483,858**	748,312	**(3,501,143)**	229,305

11. 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, marketable securities, accounts receivable, accounts payable and 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 held for trading and as level 1 within the fair value hierarchy. They 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 and options 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 three and six months ended June 30, 2012 the Corporation recorded a gain on financial instruments of $132,553 and $150,631, respectively. As at June 30, 2012, the Corporation had a total of 3 forward foreign currency exchange rate option contracts with the following terms:

AUD ($)	CAD ($)	Buy / Sell	Average Rate (%)	Date of Maturity	Mark to Market Fair Value
1,375,000	1,406,075	Buy	1.0226	July 3, 2012	33,000
2,000,000	2,040,600	Buy	1.0203	August 3, 2012	47,800
625,000	636,250	Buy	1.0180	September 4, 2012	14,875
					95,675

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. Joint venture receivables totaled $5,473,217 as at June 30, 2012 and as such there is a concentration of credit risk associated with the Corporation's joint venture receivables. However this entire amount relates to accrued receivable from Statoil that had not yet been invoiced. Subsequent to quarter end Statoil contributed US$15.0 million into a trust account to fund its share of joint operations, which effectively eliminates all credit risk associated with this balance.

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 June 30, 2012, the Corporation's cash and cash equivalents included $5,302,231 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 $53,022 for the three and six months ended June 30, 2012. 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 June 30, 2012, 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 June 30, 2012 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.

12. 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 and vice versa on a cost recovery basis. ASA charges are recorded to general and administrative expenses in the Corporation's condensed consolidated interim financial statements. For the three months ended June 30, 2012, Rodinia charged $117,149 of ASA expense to the Corporation. For the six months ended June 30, 2012, the Corporation charged Rodinia $44,290 of ASA expense. As at June 30, 2012, $20,616 was outstanding as payable to Rodinia.

13. 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 June 30, 2012
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 June 30, 2012
Year 4	May 21, 2011	September 20, 2012	Drill one exploration well	Outstanding
Year 5	May 21, 2012	May 20, 2013	Drill one exploration well	Outstanding

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 June 30, 2012
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 June 30, 2012
Year 3	June 14, 2010	December 13, 2012	Acquire seismic data	Outstanding
Year 4	December 14, 2011	June 13, 2013	Acquire seismic data Contingent on seismic results, drill one well to 600m or one well to 1,200m	Outstanding
Year 5	June 14, 2013	June 13, 2014	Drill one well to 600m Contingent on Year 4 drilling, drill two wells to 600m or one well to 1,200m	Outstanding

Statoil Farm-In Agreement

On June 20, 2012, the Corporation entered into a binding farm-in agreement (the “Farm-in Agreement”) with Statoil, effective January 1, 2012. Pursuant to the terms of the Farm-in Agreement, Statoil will have the option to earn up to 65% of the Corporation’s working interests in EP 103, EP 104, EP 127 and EP 128 and in EPA 213 and EPA 252 in exchange for exploration program related payments and carried costs of up to US$210.0 million over three phases.

Under the terms of the Farm-in Agreement, Statoil will participate with the Corporation in the exploration of the EPs and EPAs as follows:

- Phase 1 (2012 & 2013)
  - Phase 1 consists of a joint exploration program of US$50.0 million (with each of Statoil and the Corporation contributing US$25.0 million).
  - Depending on the results from the current drilling and fracturing program, the parties will agree on further drilling locations and seismic, in part to ensure that the work commitments for the respective EPs are kept current.
  - The Corporation will be the operator during Phase 1.
  - At the end of Phase 1, Statoil will have the option to acquire 25% of the Corporation's working interest by reimbursing the Corporation for its US$25.0 million Phase 1 contribution and by committing to proceed with Phase 2.

- Phase 2 (2014 & 2015)
  - The parties will conduct a further joint exploration program of US$100 million (with Statoil contributing US$80 million and the Corporation contributing US$20 million).
  - Statoil has the option of becoming the operator during Phase 2.
  - Once Statoil has contributed its US$80 million towards the Phase 2 program, it shall have earned an additional 25% of the Corporation's working interest in all of the EPs and EPAs and will have the option to commit to proceed with Phase 3.

- Phase 3 (2016)
  - The parties will conduct a further joint exploration program of US$80 million with Statoil contributing all US$80 million and the Corporation contributing nil.
  - Statoil shall be the operator during Phase 3.
  - Once Statoil has contributed its US$80 million towards the Phase 3 program, it shall have earned an additional 15% of the Corporation's working interest in all of the EPs and EPAs.

At the end of Phase 3, Statoil will have completed its earning in the EPs and EPAs and will share future costs with the Corporation based on their respective ownership percentages.

As at June 30, 2012, the Corporation had the following material contracts and commitments:

	Total ($)	**2012 ($)**	**2013 ($)**	**2014 ($)**	**2015 ($)**	**2016 ($)**
EP 103 minimum commitments	**520,550**	-	520,550	-	-	-
EP 104 minimum commitments	**1,041,100**	520,550	520,550	-	-	-
EP 127 minimum commitments	**819,866**	195,206	624,660	-	-	-
EP 128 minimum commitments	**1,444,526**	195,206	624,660	624,660	-	-
Leases	**201,193**	76,521	103,069	21,603	-	-
	4,027,235	**987,483**	**2,393,489**	**646,263**	**-**	**-**

During the three and six months ended June 30, 2012, the Corporation expensed $29,800 and $80,589 relating to operating leases it maintained throughout the periods.

NOTES *(continued)*

During the six months ended June 30, 2012, the Corporation entered into a drilling contract with a third party to drill two wells in 2012.

As at June 30, 2012, through the normal course of business the Corporation had an outstanding dispute with a third party service provider that in aggregate totaled $1,278,618. In management's opinion these charges are unsubstantiated and therefore have not been accrued.

14. SEGMENTED INFORMATION

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

	Three months ended June 30, 2012		Three months ended June 30, 2011	
	Canada ($)	**Australia ($)**	Canada ($)	Australia ($)
EXPENSES				
General and administrative	**571,507**	**1,281,034**	409,308	339,520
Loss on marketable securities	**12,494**	**-**	6,813	-
Foreign exchange loss	**277,700**	**-**	6,611	-
Financial derivative instruments (note 11)	**(132,553)**	**-**	34,012	-
Share-based compensation (note 8)	**105,827**	**-**	2,162,256	-
Depreciation	**281**	**13,070**	128	-
Corporate acquisition costs	**-**	**-**	859,745	-
Results from operating activities	**835,256**	**1,294,104**	3,478,873	339,520
Finance income	**36,768**	**57,821**	144,126	7,632
Finance costs	**(3,506)**	**(12,365)**	(271)	(3,798)
Net finance income	**33,262**	**45,456**	143,855	3,834
Net loss before taxes	**(801,994)**	**(1,248,648)**	(3,335,018)	(335,686)
Deferred tax recovery	**-**	**-**	768,599	-
Net loss from continuing operations	**(801,994)**	**(1,248,648)**	(2,566,419)	(335,686)
Net loss from discontinued operations (note 9)	**-**	**-**	(3,923)	-
NET LOSS	**(801,994)**	**(1,248,648)**	(2,570,342)	(335,686)
Exploration and evaluation assets (end of period)	**-**	**103,646,383**	-	74,785,673
Exploration and evaluation expenditures	**-**	**5,328,924**	-	3,881,144
Total assets (end of period)	**9,470,478**	**127,104,707**	50,926,474	82,612,297

NOTES *(continued)*

	Six months ended June 30, 2012		Six months ended June 30, 2011	
	Canada ($)	**Australia ($)**	Canada ($)	Australia ($)
EXPENSES				
General and administrative	**978,227**	**1,852,504**	713,724	783,748
Loss on marketable securities	**29,003**	**-**	6,813	-
Foreign exchange loss	**155,231**	**-**	6,611	-
Financial derivative instruments (note 11)	**(150,631)**	**-**	34,012	-
Share-based compensation (note 7)	**980,655**	**-**	2,937,827	-
Depreciation	**397**	**25,628**	254	-
Corporate acquisition costs	**-**	**-**	1,155,590	-
Results from operating activities	**1,992,882**	**1,878,132**	4,854,831	783,748
Finance income	**83,288**	**103,789**	244,097	29,549
Finance costs	**(3,972)**	**(19,029)**	(909)	(4,989)
Net finance income	**79,316**	**84,760**	243,188	24,560
Net loss before taxes	**(1,913,566)**	**(1,793,372)**	(4,611,643)	(759,188)
Deferred tax recovery	**-**	**-**	768,599	-
Net loss from continuing operations	**(1,913,566)**	**(1,793,372)**	(3,843,044)	(759,188)
Net loss from discontinued operations (note 9)	**-**	**-**	(3,923)	-
NET LOSS	**(1,913,566)**	**(1,793,372)**	(3,846,967)	(759,188)
Exploration and evaluation assets (end of period)	**-**	**103,646,383**	-	74,785,673
Exploration and evaluation expenditures	**-**	**6,137,854**	-	5,042,353
Total assets (end of period)	**9,470,478**	**127,104,707**	50,926,474	82,612,297

NOTES *(continued)*

15. SUBSEQUENT EVENTS

On July 11, 2012, the Corporation announced that it had received a notice of termination from Macquarie Capital Markets Canada Ltd. (“Macquarie”) terminating its obligations pursuant to the Underwriting Agreement made effective June 20, 2012 (the "Underwriting Agreement"), whereby Macquarie had agreed to purchase on a bought deal basis 15,000,000 subscription receipts at a price of $1.00 per subscription receipt. The notice of termination received from Macquarie did not provide the reason for Macquarie terminating its obligations under the Underwriting Agreement. Management of PetroFrontier is of the view that Macquarie did not have a valid legal reason to terminate the Underwriting Agreement and PetroFrontier is currently reviewing its options in this regard.

On July 16, 2012, the Corporation announced that the Foreign Investment Review Board of Australia (“FIRB”) had no objection to the joint venture between Statoil and the Corporation and this approval satisfied the last condition precedent of the Farm-In Agreement.

NOTES *(continued)*

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Calgary, Alberta

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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
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Chief Executive Officer

Shane J. Kozak
Vice President Finance and
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