PetroFrontier

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

(Unaudited)

PetroFrontier Corp.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

(Canadian Dollars)

As at	**September 30, 2012**	**December 31, 2011**
ASSETS		
Current		
Cash and cash equivalents (note 4)	11,141,237	24,358,559
Restricted cash (note 5)	14,008,376	-
Term deposits	-	2,500,000
Marketable securities	7,453	49,284
Financial derivative instruments (note 13)	-	40,198
Accounts receivable (note 6)	11,764,689	1,400,005
Prepaid expenses and deposits (note 7)	1,119,220	666,998
	38,040,975	29,015,044
Corporate assets	60,900	82,576
Exploration and evaluation assets (note 8)	107,691,436	96,454,822
Goodwill	8,799,180	8,946,231
	154,592,491	**134,498,673**
LIABILITIES		
Current		
Accounts payable and accrued liabilities (note 9)	21,742,021	6,256,024
Decommissioning liabilities	96,000	96,000
	21,838,021	6,352,024
Decommissioning liabilities	1,108,633	500,680
Deferred tax liability	15,994,558	16,261,859
	38,941,212	23,114,563
SHAREHOLDERS' EQUITY		
Share capital (note 10)	125,916,046	117,189,874
Warrants (note 10)	1,220,886	1,073,250
Contributed surplus	8,870,398	6,528,103
Accumulated other comprehensive income	(769,335)	743,128
Deficit	(19,586,716)	(14,150,245)
	115,651,279	111,384,110
	154,592,491	**134,498,673**

See accompanying notes to the condensed consolidated interim financial statements

Commitments and contingencies (note 15)

PetroFrontier Corp.

CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

(Unaudited)

(Canadian Dollars)

	Three months ended September 30		Nine months ended September 30	
	2012	**2011**	**2012**	**2011**
EXPENSES				
General and administrative	**1,172,674**	996,947	**4,003,405**	2,494,419
Loss on marketable securities	**12,826**	25,777	**41,829**	32,590
Foreign exchange loss	**291,796**	86,057	**447,027**	92,668
Financial derivative instruments (Note 13)	**-**	76,819	**(150,631)**	110,831
Share-based compensation (Note 10)	**297,749**	980,062	**1,278,404**	3,917,889
Depreciation	**13,344**	10,305	**39,369**	10,559
Corporate acquisition costs	**-**	17,497	**-**	1,173,087
Results from operating activities	**1,788,389**	2,193,464	**5,659,403**	7,832,043
Finance income	**68,862**	111,377	**255,939**	385,023
Finance costs	**(10,006)**	(4,305)	**(33,007)**	(10,203)
Net finance income	**58,856**	107,072	**222,932**	374,820
NET LOSS BEFORE TAXES	**(1,729,533)**	(2,086,392)	**(5,436,471)**	(7,457,223)
Deferred tax recovery	**-**	-	**-**	768,599
Net loss from continuing operations	**(1,729,533)**	(2,086,392)	**(5,436,471)**	(6,688,624)
Net income from discontinued operations (Note 11)	**-**	45,297	**-**	41,374
NET LOSS	**(1,729,533)**	(2,041,095)	**(5,436,471)**	(6,647,250)
OTHER COMPREHENSIVE EARNINGS				
Foreign exchange loss on translation of foreign operations	**(2,124,574)**	(608,757)	**(1,512,462)**	(285,824)
COMPREHENSIVE LOSS	**(3,854,107)**	(2,649,852)	**(6,948,933)**	(6,933,074)
Net loss per share **Basic and diluted** (Note 10)	**(0.03)**	(0.03)	**(0.08)**	(0.12)

See accompanying notes to the condensed consolidated interim financial statements

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					(5,436,471)	(5,436,471)
Foreign exchange gain on translation of foreign operations				(1,512,462)		(1,512,462)
Issued on exercise of stock options	27,360		(9,360)			18,000
Expiry of warrants (note 10)		(1,073,250)	1,073,250			-
Private placement (note 10)	8,698,812	1,220,886				9,919,698
Share-based compensation (note 10)			1,278,404			1,278,404
Balance at September 30, 2012	**125,916,046**	**1,220,886**	**8,870,398**	**(769,335)**	**(19,586,716)**	**115,651,279**

	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					(6,647,250)	(6,647,250)
Foreign exchange gain (loss) on translation of foreign operations				(285,824)		(285,824)
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	1,197,305		(506,558)			690,747
Share-based compensation			3,917,889			3,917,889
Balance at September 30, 2011	117,119,876	1,073,250	5,543,916	503,322	(12,462,317)	111,778,047

See accompanying notes to the condensed consolidated interim financial statements

PetroFrontier Corp.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(Canadian dollars)

	Three months ended September 30		**Nine months ended September 30**	
	2012	2011	**2012**	2011
Cash provided by (used in)				
OPERATING				
Net loss from continuing operations	**(1,729,533)**	(2,086,392)	**(5,436,471)**	(6,688,624)
Unrealized loss on marketable securities	**12,826**	25,777	**41,829**	32,590
Financial instruments	**95,676**	30,744	**40,198**	64,756
Depreciation	**13,344**	10,305	**39,369**	10,559
Share-based compensation	**297,749**	980,062	**1,278,404**	3,917,889
Net finance income	**(58,856)**	(107,072)	**(222,932)**	(374,820)
Deferred tax recovery	**-**	-	**-**	(768,599)
	(1,368,794)	(1,146,576)	**(4,259,603)**	(3,806,249)
Change in non-cash working capital (Note 12)	**8,452,319**	(528,836)	**4,951,176**	608,756
Cash flow from continuing operations	**7,083,525**	(1,675,412)	**691,573**	(3,197,493)
Cash flow from discontinued operations	**-**	749,409	**-**	4,126
Cash flow from operating activities	**7,083,525**	(926,003)	**691,573**	(3,193,367)
FINANCING				
Proceeds from private placement	**10,000,000**	-	**10,000,000**	-
Share issue costs associated with private placement	**(80,302)**	-	**(80,302)**	-
Exercise of Pendulum agent's options	**-**	-	**-**	27,000
Issuance of common shares from exercise of stock options	**-**	544,081	**18,000**	690,747
Interest paid	**(208)**	(4,305)	**(8,675)**	(10,203)
	9,919,490	539,776	**9,929,023**	707,544
INVESTING				
Acquisition, net of cash acquired	**-**	-	**-**	(8,858,137)
Exploration and evaluation expenditures	**(6,223,102)**	(10,007,187)	**(12,360,956)**	(15,049,543)
Corporate asset expenditures	**(4,091)**	(99,884)	**(17,693)**	(104,123)
Restricted cash	**(14,008,376)**	-	**(14,008,376)**	-
Term deposits	**-**	-	**2,500,000**	(15,000,000)
Interest received	**68,862**	60,666	**255,939**	331,341
	(20,166,707)	(10,046,405)	**(23,631,086)**	(38,680,462)
Disposals of property, plant and equipment from discontinued operations	**-**	6,810,000	**-**	6,810,000
	(20,166,707)	(3,236,405)	**(23,631,086)**	(31,870,462)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	**(420,858)**	(92,324)	**(206,832)**	(15,215)
Decrease in cash and cash equivalents	**(3,584,550)**	(3,714,956)	**(13,217,322)**	(34,371,500)
Cash and cash equivalents, beginning of the period	**14,725,787**	25,053,978	**24,358,559**	**55,710,522**
Cash and cash equivalents end of the period	**11,141,237**	21,339,022	**11,141,237**	**21,339,022**

See accompanying notes to the condensed consolidated interim financial statements

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the three and nine months ended September 30, 2012

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 nine months ended September 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. In 2012, the Corporation has completed the drilling of the horizontal section at its second drilling location that was drilled in 2011 and has now completed drilling its third horizontal well. Following the drilling operations, the Corporation was able to stimulate two of the three drilling locations. The well the Corporation was unable to stimulate has been suspended due to a casing failure and is awaiting remedial work.

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. 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 September 30, 2012, the Corporation had working capital of $16,202,954, a deficit of $19,586,716 and a net loss from continuing operations for the three and nine months ended September 30, 2012 of $1,729,533 and $5,436,471. 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. In September 2012, the Corporation closed a series of private placement offerings for gross proceeds of $10,000,000 through the issuance of 15,384,615 units (the "Units") at a price of $0.65 per Unit. Each Unit consists of one common share ("Share") and one common share purchase warrant ("Warrant"). Each Warrant entitles the holder thereof to acquire one additional Share at a price of $0.90 per Share. The Warrants will expire on September 8, 2014 (the "Warrant Expiry Date"), unless the volume weighted average trading price of the Shares on the TSX Venture Exchange Inc. during the 10 consecutive trading days immediately prior to the date for which such calculation is made is greater than $1.125 (the "Trigger Event"). If a Trigger Event occurs, the Warrant Expiry Date may, at the option of the Corporation, be accelerated to the later of: (i) 30 business days from the Trigger Event date; and (ii) one month following the expiry of the applicable hold period required under securities laws.

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

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 November 26, 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 nine months ended September 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

	September 30, 2012 ($)	December 31, 2011 ($)
Cash at bank and on hand	**11,141,237**	11,774,340
Short-term deposits	**-**	12,584,219
Cash and cash equivalents	**11,141,237**	24,358,559

5. RESTRICTED CASH

	September 30, 2012 ($)	December 31, 2011 ($)
Operating and trust accounts	**13,782,746**	-
Other	**225,630**	-
Restricted cash	**14,008,376**	-

The Corporation has established various operating and trust accounts to effectively manage and ensure the timely payment of capital expenditures for the joint ventures it operates. The amounts deposited into these various accounts are considered restricted to the operations of the joint ventures.

6. ACCOUNTS RECEIVABLE

	September 30, 2012 ($)	December 31, 2011 ($)
Trade receivables	**1,571,718**	1,400,005
Joint venture receivables	**10,192,971**	-
Allowance for doubtful accounts	**-**	-
Accounts receivable	**11,764,689**	1,400,005

The substantial increase in joint venture receivables as at September 30, 2012 as compared to December 31, 2011 is due to amounts owed to the Corporation by its joint venture partners. The Corporation has secured payments from these joint venture partners in advance for these charges, which are recorded as restricted cash and effectively eliminates all credit risk associated with this balance.

7. PREPAID EXPENSES AND DEPOSITS

	September 30, 2012 ($)	December 31, 2011 ($)
Deposits on capital expenditures	**1,016,298**	629,621
Rent, insurance and other	**102,922**	37,377
Prepaid expenses and deposits	**1,119,220**	666,998

As at September 30, 2012, the Corporation had a deposit remaining for approximately $400,000 (Australian dollars) with an Australian drilling company relating to outstanding billings 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.

8. EXPLORATION AND EVALUATION ASSETS

	Exploration & Evaluation Assets ($)
Cost:	
At December 31, 2011	96,454,822
Additions	11,236,614
At September 30, 2012	**107,691,436**
Net Book Value:	
At December 31, 2011	96,454,822
At September 30, 2012	**107,691,436**

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

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2012 ($)	December 31, 2011 ($)
Accrued liabilities	**5,220,591**	3,566,428
Joint venture payables	**11,079,332**	-
Trade payables	**5,442,098**	2,689,596
Accounts payable and accrued liabilities	**21,742,021**	6,256,024

The increase in accounts payable at the end of the current quarter was due to higher activity levels relating to drilling operations as at September 30, 2012 in comparison to December 31, 2011.

10. 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

	Nine months Ended September 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
Private placement, net of share issue costs	**15,384,615**	**8,698,812**		
Exercise of Pendulum agent's options	**-**	**-**	22,500	27,000
Exercise of stock options	**18,000**	**27,360**	519,998	1,197,305
Exercise of Pendulum stock options	**-**	**-**	58,332	69,998
Acquisition of outstanding shares of Texalta	**-**	**-**	15,667,189	47,784,926
Balance, end of period	**79,400,768**	**125,916,046**	63,998,153	117,189,874
Warrants				
Balance, beginning of year	**675,000**	**1,073,250**	-	-
Private placement, net of share issue costs	**15,384,615**	**1,220,886**		
Expiry of warrants	**(675,000)**	**(1,073,250)**		
Acquisition of outstanding warrants of Texalta	**-**	**-**	675,000	1,073,250
Balance, end of period	**15,384,615**	**1,220,886**	675,000	1,073,250

In September 2012, the Corporation closed a series of private placement offerings for gross proceeds of $10,000,000 through the issuance of 15,384,615 units (the "Units") at a price of $0.65 per Unit. Each Unit consists of one common share ("Share") and one common share purchase warrant ("Warrant"). Each Warrant entitles the holder thereof to acquire one additional Share at a price of $0.90 per Share. The Warrants will expire on September 8, 2014 (the "Warrant Expiry Date"), unless the volume weighted average trading price of the Shares on the TSX Venture Exchange Inc. during the 10 consecutive trading days immediately prior to the date for which such calculation is made is greater than $1.125 (the "Trigger Event"). If a Trigger Event occurs, the Warrant Expiry Date may, at the option of the Corporation, be accelerated to the later of: (i) 30 business days from the Trigger Event date; and (ii) one month following the expiry of the applicable hold period required under securities laws.

The fair value of the Warrants issued in conjunction with the September 2012 private placement was estimated at $0.08 per Warrant.

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 period ended September 30, 2012:

	Number of options	Weighted average exercise price ($)
Balance, December 31, 2011	5,396,668	2.06
Granted	500,000	1.99
Exercised	(18,000)	1.00
Forfeited	(1,462,000)	2.23
Balance, September 30, 2012	**4,416,668**	**2.00**

The following table summarizes stock options outstanding and exercisable under the plan at September 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	1.4	$0.25	220,000	$0.25
$1.00	860,001	2.4	$1.00	855,001	$1.00
$1.20	105,000	1.4	$1.20	105,000	$1.20
$1.99	500,000	4.3	$1.99	250,000	$1.99
$2.00	1,501,667	3.2	$2.00	973,326	$2.00
$3.05	1,095,000	3.7	$3.05	749,995	$3.05
$3.09	35,000	3.4	$3.09	23,333	$3.09
$3.60	100,000	3.4	$3.60	100,000	$3.60
	4,416,668	**3.2**	**$2.00**	**3,276,655**	**$1.89**

D) Share-Based Compensation

The Corporation accounts for its share-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 nine months ended September 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	September 30, 2012	December 31, 2011
Risk free interest rate (%)	1.25	2.33
Expected life (years)	5.0	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 nine months ended September 30, 2012 were 67,260,184 and 65,103,182, respectively (63,800,193 and 54,894,237 for the three and nine months ended September 30, 2011). As the Corporation has recorded a loss for the three and nine months ended September 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 nine months ended September 30, 2012, 220,000 and 1,185,001 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 anti-dilutive (5,300,000 for the three and nine months ended September 30, 2011).

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 September 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.

In September 2012, the Corporation closed a series of private placement offerings for gross proceeds of $10,000,000 through the issuance of 15,384,615 units (the “Units”) at a price of $0.65 per Unit. Each Unit consists of one common share (“Share”) and one common share purchase warrant (“Warrant”). Each Warrant entitles the holder thereof to acquire one additional Share at a price of $0.90 per Share. The Warrants will expire on September 8, 2014 (the “Warrant Expiry Date”), unless the volume weighted average trading price of the Shares on the TSX Venture Exchange Inc. during the 10 consecutive trading days immediately prior to the date for which such calculation is made is greater than $1.125 (the "Trigger Event"). If a Trigger Event occurs, the Warrant Expiry Date may, at the option of the Corporation, be accelerated to the later of: (i) 30 business days from the Trigger Event date; and (ii) one month following the expiry of the applicable hold period required under securities laws.

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.

11. DISCONTINUED OPERATIONS

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
REVENUE		
Oil and natural gas sales	**664,627**	**916,190**
Crown and other royalties	**(109,400)**	**(146,150)**
	555,227	**770,040**
Operating	**115,985**	**167,796**
Depletion, depreciation and accretion	**498,719**	**665,644**
Impairment of goodwill	**768,599**	**768,599**
Gain on disposition of discontinued assets	**(873,373)**	**(873,373)**
	(509,930)	**(728,666)**
Net Loss from discontinued operations	**45,297**	**41,374**

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.

NOTES *(continued)*

12. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	Three month ended September 30		Nine month ended September 30	
	2012	2011	**2012**	2011
	$	$	**$**	$
Restricted cash	**-**	-	**-**	58,467
Accounts receivable	**(5,658,951)**	(770,775)	**(10,364,684)**	381,234
Prepaid expenses and deposits	**1,814,157**	(1,784,910)	**(452,222)**	(1,973,454)
Accounts payables and accrued liabilities	**11,859,146**	1,989,025	**15,485,997**	2,145,667
Other	**437,967**	37,824	**282,085**	(3,158)
Change in non-cash working capital	**8,452,319**	(528,836)	**4,951,176**	608,756

13. FINANCIAL DERIVATIVE INSTRUMENTS

Fair value of financial instruments

The Corporation's financial instruments recognized in the statement of financial position consist of cash and cash equivalents, restricted cash, 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.

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 nine months ended September 30, 2012 the Corporation recorded a gain on financial instruments of nil and $150,631, respectively. As at September 30, 2012, the Corporation had no outstanding forward foreign currency exchange rate option contracts.

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 $10,192,971 as at September 30, 2012 and as such there is a concentration of credit risk associated with the Corporation's joint venture receivables. However, the Corporation has secured payments from these joint venture partners in advance for these charges, which are recorded as restricted cash and 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 September 30, 2012, the Corporation's cash and cash equivalents included $4,992,485 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 $12,481 and $37,444 for the three and nine months ended September 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 September 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 (see note 2).

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 September 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.

14. 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 and nine months ended September 30, 2012, Rodinia charged $125,405 and $488,988 of ASA expense, respectively to the Corporation. As at September 30, 2012, $122,221 was outstanding as payable to Rodinia.

15. 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	$ (AUD)	Status as at September 30, 2012
Year 5	May 21, 2012	May 20, 2013	Drill one exploration well	$500,000	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	$ (AUD)	Status as at September 30, 2012
Year 5	May 21, 2012	May 20, 2013	Drill one exploration well	$500,000	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	$ (AUD)	Status as at September 30, 2012
Year 4	December 14, 2011	December 13, 2013	Acquire seismic data or drill a well	187,500	Outstanding
Year 5	December 14, 2012	December 13, 2014	Drill an exploration well	450,000	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	$ (AUD)	Status as at September 30, 2012
Year 3	June 14, 2010	December 13, 2013	Acquire seismic data	187,500	Outstanding
Year 4	December 14, 2011	June 13, 2014	Drill an exploration well	450,000	Outstanding
Year 5	June 14, 2013	June 13, 2015	Drill an exploration well	450,000	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.

  - o 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)
  - o 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).
  - o Statoil has the option of becoming the operator during Phase 2.
  - o 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)
  - o 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.
  - o Statoil shall be the operator during Phase 3.
  - o 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 September 30, 2012, the Corporation had the following material contracts and commitments:

	Total ($)	**2012 ($)**	**2013 ($)**	**2014 ($)**	**2015 ($)**	**2016 ($)**
EP 103 minimum commitments	**510,194**	-	510,194	-	-	-
EP 104 minimum commitments	**510,194**	-	510,194	-	-	-
EP 127 minimum commitments	**650,497**	-	191,323	459,174	-	-
EP 128 minimum commitments	**1,109,671**	-	191,323	459,174	459,174	-
Leases	**159,690**	37,499	101,018	21,173	-	-
	2,940,246	**37,499**	**1,504,052**	**939,521**	**459,174**	**-**

During the three and nine months ended September 30, 2012, the Corporation expensed $51,272 and $131,861 relating to operating leases it maintained throughout the periods.

As at September 30, 2012, through the normal course of business the Corporation had an outstanding dispute with a third party service provider that in aggregate totaled $1,253,180. In management's opinion these charges are unsubstantiated and therefore have not been accrued.

NOTES *(continued)*

16. SEGMENTED INFORMATION

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

	Three months ended September 30, 2012		Three months ended September 30, 2011	
	Canada ($)	**Australia ($)**	Canada ($)	Australia ($)
EXPENSES				
General and administrative	**825,976**	**346,698**	481,310	515,637
Loss on marketable securities	**12,826**	**-**	25,777	-
Foreign exchange loss	**291,796**	**-**	86,057	-
Financial derivative instruments (note 13)	**-**	**-**	76,819	-
Share-based compensation (note 10)	**297,749**	**-**	980,062	-
Depreciation	**343**	**13,001**	6,449	3,856
Corporate acquisition costs	**-**	**-**	15,051	2,446
Results from operating activities	**1,428,690**	**359,699**	1,671,525	521,939
Finance income	**14,674**	**54,188**	110,739	638
Finance costs	**2,931**	**(12,937)**	(1,471)	(2,834)
Net finance income	**17,605**	**41,251**	109,268	(2,196)
Net loss before taxes	**(1,411,085)**	**(318,448)**	(1,562,257)	(524,135)
Deferred tax recovery	**-**	**-**	-	-
Net loss from continuing operations	**(1,411,085)**	**(318,448)**	(1,562,257)	(524,135)
Net loss from discontinued operations (note 11)	**-**	**-**	45,297	-
NET LOSS	**(1,411,085)**	**(318,448)**	(1,516,960)	(524,135)
Exploration and evaluation assets (end of period)	**-**	**107,691,436**	-	84,575,291
Exploration and evaluation expenditures	**-**	**6,223,102**	-	10,007,187
Total assets (end of period)	**6,565,400**	**148,027,091**	36,160,075	98,040,085

NOTES *(continued)*

	Nine months ended September 30, 2012		Nine months ended September 30, 2011	
	Canada ($)	**Australia ($)**	Canada ($)	Australia ($)
EXPENSES				
General and administrative	**1,804,203**	**2,199,202**	1,195,034	1,299,385
Loss on marketable securities	**41,829**	**-**	32,590	-
Foreign exchange loss	**447,027**	**-**	92,668	-
Financial derivative instruments (note 13)	**(150,631)**	**-**	110,831	-
Share-based compensation (note 10)	**1,278,404**	**-**	3,917,889	-
Depreciation	**740**	**38,629**	6,703	3,856
Corporate acquisition costs	**-**	**-**	1,170,641	2,446
Results from operating activities	**3,421,572**	**2,237,831**	6,526,356	1,305,687
Finance income	**97,962**	**157,977**	354,836	30,187
Finance costs	**(1,041)**	**(31,966)**	(2,380)	(7,823)
Net finance income	**96,921**	**126,011**	352,456	22,364
Net loss before taxes	**(3,324,651)**	**(2,111,820)**	(6,173,900)	(1,283,323)
Deferred tax recovery	**-**	**-**	768,599	-
Net loss from continuing operations	**(3,324,651)**	**(2,111,820)**	(5,405,301)	(1,283,323)
Net loss from discontinued operations (note 11)	**-**	**-**	41,374	-
NET LOSS	**(3,324,651)**	**(2,111,820)**	(5,363,927)	(1,283,323)
Exploration and evaluation assets (end of period)	**-**	**12,360,956**	-	15,049,543
Exploration and evaluation expenditures	**-**	**6,223,102**	-	10,007,187
Total assets (end of period)	**6,565,400**	**148,027,091**	36,160,075	98,040,085

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
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