PetroFrontier

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS AT AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013

PetroFrontier Corp.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

(Canadian Dollars)

As at	September 30, 2013	December 31, 2012
ASSETS		
Current		
Cash and cash equivalents (note 4)	7,415,665	3,944,537
Restricted cash (note 5)	3,401,288	7,688,228
Marketable securities	2,335	3,777
Accounts receivable (note 6)	383,230	3,720,394
Prepaid expenses and deposits (note 7)	213,934	722,311
	11,416,452	16,079,247
Corporate assets	29,158	47,913
Exploration and evaluation assets (note 10)	44,171,490	112,614,425
Goodwill (note 9)	-	8,917,774
	55,617,100	**137,659,359**
LIABILITIES		
Current		
Accounts payable and accrued liabilities	3,250,617	3,787,574
Decommissioning liabilities (note 11)	-	1,742,709
Deferred tax liability	-	16,210,131
	3,250,617	21,740,414
SHAREHOLDERS' EQUITY		
Share capital (note 12)	125,916,046	125,916,046
Warrants (note 12)	1,220,886	1,220,886
Contributed surplus	9,264,626	9,027,112
Accumulated other comprehensive income	(5,554,296)	581,633
Deficit	(78,480,779)	(20,826,732)
	52,366,483	115,918,945
	55,617,100	**137,659,359**

See accompanying notes to the condensed consolidated interim financial statements

Commitments and contingencies (note 17)
Subsequent events (note 19)

PetroFrontier Corp.

CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

(Unaudited)

(Canadian Dollars)

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
EXPENSES				
General and administrative	**1,531,045**	1,172,674	**3,754,220**	4,003,405
(Gain)/loss on marketable securities	**(1,163)**	12,826	**1,442**	41,829
Foreign exchange (gain)/loss	**(6,133)**	291,796	**10,759**	447,027
Financial instruments (note 15)	**-**	-	**-**	(150,631)
Share-based compensation (note 12)	**24,147**	297,749	**237,514**	1,278,404
Depreciation	**2,401**	13,344	**30,087**	39,369
Impairment (note 8)	**-**	-	**68,837,915**	-
Results from operating activities	**1,550,297**	1,788,389	**72,871,937**	5,659,403
Finance income	**69,049**	68,862	**156,108**	255,939
Finance costs	**(2,097)**	(10,006)	**(28,998)**	(33,007)
Net finance income	**66,952**	58,856	**127,110**	222,932
NET LOSS BEFORE TAXES	**(1,483,345)**	(1,729,533)	**(72,744,827)**	(5,436,471)
Deferred tax recovery (note 14)	**-**	-	**15,090,780**	-
NET LOSS	**(1,483,345)**	(1,729,533)	**(57,654,047)**	(5,436,471)
OTHER COMPREHENSIVE EARNINGS				
Items that may be reclassified subsequently to net income (loss):				
Foreign exchange loss on foreign operations	**(201,595)**	(2,124,574)	**(6,135,929)**	(1,512,462)
COMPREHENSIVE LOSS	**(1,684,940)**	(3,854,107)	**(63,789,976)**	(6,948,933)
Net loss per share				
Basic and diluted (note 12)	**(0.02)**	(0.03)	**(0.73)**	(0.08)

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, 2013	**125,916,046**	**1,220,886**	**9,027,112**	**581,633**	**(20,826,732)**	**115,918,945**
Net loss	-	-	-	-	(57,654,047)	(57,654,047)
Foreign exchange loss on translation of foreign operations	-	-	-	(6,135,929)	-	(6,135,929)
Share-based compensation	-	-	237,514	-	-	237,514
Balance at September 30, 2013	**125,916,046**	**1,220,886**	**9,264,626**	**(5,554,296)**	**(78,480,779)**	**52,366,483**
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		(1,073,250)	1,073,250	-	-	-
Private placement (note 12)	8,698,812	1,220,886	-	-	-	9,919,698
Share-based compensation	-	-	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**

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	
	2013	2012	**2013**	2012
Cash provided by (used in)				
OPERATING				
Net loss from continuing operations	**(1,483,345)**	(1,729,533)	**(57,654,047)**	(5,436,471)
Unrealized (gain)/loss on marketable securities	**(1,163)**	12,826	**1,442**	41,829
Financial instruments	**-**	95,676	**-**	40,198
Depreciation	**2,401**	13,344	**30,087**	39,369
Share-based compensation	**24,147**	297,749	**237,514**	1,278,404
Net finance income	**(66,952)**	(58,856)	**(127,110)**	(222,932)
Deferred tax recovery	**-**	-	**(15,090,780)**	-
Impairment	**-**	-	**68,837,915**	-
	(1,524,912)	(1,368,794)	**(3,764,979)**	(4,259,603)
Change in non-cash working capital (Note 13)	**3,364,253**	8,452,319	**3,482,963**	4,951,176
Cash flow from (used in) operating activities	**1,839,341**	7,083,525	**(282,016)**	691,573
FINANCING				
Proceeds from private placement	**-**	10,000,000	**-**	10,000,000
Share issue costs associated with private placement	**-**	(80,302)	**-**	(80,302)
Issuance of common shares from exercise of stock options	**-**		**-**	18,000
Finance costs	**(2,097)**	(208)	**(7,937)**	(8,675)
Cash flow from (used in) financing activities	**(2,097)**	9,919,490	**(7,937)**	9,929,023
INVESTING				
Exploration and evaluation expenditures	**86,079**	(6,223,102)	**10,003**	(12,360,956)
Corporate asset expenditures net of dispositions	**6,697**	(4,091)	**(11,332)**	(17,693)
Term deposits	**-**	-	**-**	2,500,000
Restricted cash	**(2,774,933)**	(14,008,376)	**4,286,940**	(14,008,376)
Interest received	**69,049**	68,862	**156,108**	255,939
Cash flow from (used in) investing activities	**(2,613,108)**	(20,166,707)	**4,441,719**	(23,631,086)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	**(64,315)**	(420,858)	**(680,638)**	(206,832)
Increase/(decrease) in cash and cash equivalents	**(840,179)**	(3,584,550)	**3,471,128**	(13,217,322)
Cash and cash equivalents, beginning of the period	**8,255,844**	14,725,787	**3,944,537**	24,358,559
Cash and cash equivalents and term deposits, end of the period	**7,415,665**	11,141,237	**7,415,665**	11,141,237

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 the 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, 2013 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. 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.

On June 10, 2013, the Corporation entered into an agreement to amend the existing farm-in agreement with Statoil Australia Oil & Gas AS ("Statoil") (the "Amended Farm-in Agreement"). Pursuant to the Amended Farm-in Agreement and subsequent to quarter end, Statoil was transferred 80% 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$175.0 million over three phases to the end of 2016. On September 1, 2013, Statoil assumed operatorship of the Corporation's lands.

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, 2013, the Corporation had working capital of $8,165,835, a deficit of $78,480,779 and a net loss from continuing operations for the three and nine months ended September 30, 2013 of $1,483,345 and $57,654,047, respectively. The Corporation's petroleum licenses are in the exploration stage.

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.

3. BASIS OF PRESENTATION, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

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 27, 2013, 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 2012 annual consolidated financial statements.

These condensed consolidated interim financial statements of the Corporation as at and for the three and nine months ended September 30, 2013 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.

On January 1, 2013, the Corporation adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7). The adoption of these standards had no impact on the amounts recorded in the financial statements as at January 1, 2013 or on the comparative periods.

The Corporation has adopted the amendments to IAS 1, Presentation of Financial Statements which require the Corporation to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

4. CASH AND CASH EQUIVALENTS

	September 30, 2013 ($)	December 31, 2012 ($)
Cash at bank and on hand	7,415,665	3,944,537
Cash and cash equivalents	**7,415,665**	**3,944,537**

5. RESTRICTED CASH

	September 30, 2013 ($)	December 31, 2012 ($)
Operating and trust accounts (i)	3,254,373	7,454,895
Other (ii)	146,915	233,333
Restricted cash	**3,401,288**	**7,688,228**

(i) 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.

(ii) The Corporation had two term deposits outstanding as at September 30, 2013.

6. ACCOUNTS RECEIVABLE

	September 30, 2013	December 31, 2012
Trade receivables	383,230	1,814,930
Joint venture receivables	-	1,905,464
Allowance for doubtful accounts	-	-
Accounts receivable	**383,230**	**3,720,394**

7. PREPAID EXPENSES AND DEPOSITS

	September 30, 2013 ($)	December 31, 2012 ($)
Environmental and abandonment deposits	175,132	631,687
Rent, insurance and other	38,802	90,624
Prepaid expenses and deposits	**213,934**	**722,311**

As at September 30, 2013, the Corporation had $182,600 (Australian dollars) on deposit with the Northern Territory government pertaining to various environmental and abandonment deposits.

8. IMPAIRMENT

	Nine months ended September 30, 2013	Three and nine months ended September 30, 2012
Impairment of goodwill	9,149,570	-
Impairment of exploration and evaluation assets	59,688,345	-
	68,837,915	**-**

The Corporation's goodwill at September 30, 2013 has been assessed for impairment. All of the Corporation's goodwill has been impaired. The execution of the Amended Farm-in Agreement with Statoil indicated that the aggregated carrying value of the goodwill exceeded the fair value less costs to sell. Accordingly, impairment of $9,149,570 was recorded during the nine month ended September 30, 2013 (three and nine months ended September 30, 2012 - nil). See note 9 for discussion regarding the Corporation's goodwill.

The Corporation's exploration and evaluation assets at September 30, 2013 have been assessed for impairment. The execution of the Amended Farm-in Agreement with Statoil indicated that the aggregated carrying value of the Corporation's exploration and evaluation assets exceeded the fair value less costs to sell. Accordingly, impairment of $59,688,345 was recorded during the nine month ended September 30, 2013 (three and nine months ended September 30, 2012 - nil). See note 10 for discussion regarding the Corporation's exploration and evaluation assets.

9. GOODWILL

	September 30, 2013	December 31, 2012
	($)	**($)**
Cost:		
Balance, January 1	8,917,774	8,946,231
Additions	-	-
Dispositions	-	-
Foreign currency translation	231,796	(28,457)
Balance, period end	**9,149,570**	**8,917,774**
Accumulated impairment losses:		
At January 1	-	-
Impairment losses recognized in the year	(9,149,570)	-
Balance, period end	**(9,149,570)**	**-**
Net book value, period end	**-**	**8,917,774**

Goodwill was assessed for impairment as at September 30, 2013. The execution of the Amended Farm-in Agreement indicated that the aggregated carrying value of the goodwill exceeded the fair value less costs to sell. Accordingly, impairment of $9,149,570 was recorded.

NOTES *(continued)*

10. EXPLORATION AND EVALUATION ASSETS

	Exploration & Evaluation Assets ($)
Cost:	
At December 31, 2012	112,614,425
Cumulative translation adjustments and additions	(8,754,590)
At September 30, 2013	**103,859,835**
Accumulated impairment:	
At December 31, 2012	-
Impairment	(59,688,345)
At September 30, 2013	**(59,688,345)**
Net Book Value:	
At December 31, 2012	112,614,425
At September 30, 2013	**44,171,490**

The execution of the Amended Farm-in Agreement with Statoil indicated that the aggregated carrying value of the Corporation's exploration and evaluation assets exceeded the fair value less costs to sell. Accordingly, impairment of $59,688,345 was recorded.

11. 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 September 30, 2013 was nil (December 31, 2012 - $1,830,571). In accordance with the Amended Farm-in Agreement with Statoil, the Corporation is no longer financially obligated for the decommissioning liabilities associated with these assets. Changes to the decommissioning liabilities were as follows:

	September 30, 2013	December 31, 2012
	($)	**($)**
Balance, beginning of period	1,742,709	596,680
Liabilities incurred	-	419,436
Liabilities settled	-	(96,000)
Revision to estimates	(1,763,770)	791,622
Accretion	21,061	30,971
Balance, end of period	**-**	**1,742,709**

NOTES *(continued)*

12. 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, 2013		Year Ended December 31, 2012	
	Number of shares	**Amount ($)**	**Number of shares**	**Amount ($)**
Common Shares				
Balance, beginning of year	79,400,768	125,916,046	63,998,153	117,189,874
Private placement, net of share issue costs (i)	-	-	15,384,615	8,698,812
Exercise of stock options (ii)	-	-	18,000	27,360
Balance, end of period	**79,400,768**	**125,916,046**	**79,400,768**	**125,916,046**
Warrants				
Balance, beginning of year	15,384,615	1,220,886	675,000	1,073,250
Private placement, net of share issue costs (i)	-	-	15,384,615	1,220,886
Expiry of warrants	-	-	(675,000)	(1,073,250)
Balance, end of period	**15,384,615**	**1,220,886**	**15,384,615**	**1,220,886**

Issue of Common Shares

(i) 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.

(ii) For the year ended December 31, 2012, 18,000 stock options were exercised with an average exercise price of $1.00 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 nine months ended September 30, 2013:

	Number of options	Weighted average price ($)
Balance, December 31, 2012	4,259,167	2.00
Granted	-	-
Exercised	-	-
Forfeited	(93,333)	1.98
Balance, September 30, 2013	**4,165,834**	**2.00**

The following table summarizes stock options outstanding and exercisable under the plan at September 30, 2013.

	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	200,000	0.4	$0.25	200,000	$0.25
$1.00	811,667	1.4	$1.00	811,667	$1.00
$1.20	105,000	0.4	$1.20	105,000	$1.20
$1.99	500,000	3.3	$1.99	375,000	$1.99
$2.00	1,396,667	2.2	$2.00	1,396,667	$2.00
$3.05	1,017,500	2.7	$3.05	1,017,500	$3.05
$3.09	35,000	2.4	$3.09	35,000	$3.09
$3.60	100,000	2.4	$3.60	100,000	$3.60
	4,165,834	**2.2**	**$2.00**	**4,040,834**	**$2.00**

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.

E) Per common share amounts

The basic weighted average number of common shares outstanding for the three and nine months ended September 30, 2013 were 79,400,768 (67,260,184 and 65,103,182 for the three and nine months ended September 30, 2012). As the Corporation has recorded a loss for the three and nine months ended September 30, 2013 and 2012, 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, 2013, nil and 200,000 options, respectively 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 (220,000 and 1,185,001 for the three and nine months ended September 30, 2012).

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, 2013, 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.

With current working capital on hand and the completion of the Amended Farm-in Agreement with Statoil, 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.

13. Supplemental Cash Flow Information

Changes in non-cash working capital:

	Three month ended September 30		**Nine month ended September 30**	
	2013	**2012**	**2013**	**2012**
	$	**$**	**$**	**$**
Accounts receivable	1,096,441	(5,658,951)	3,337,164	(10,364,684)
Prepaid expenses and deposits	554,732	1,814,157	508,377	(452,222)
Accounts payables and accrued liabilities	1,741,761	11,859,146	(536,957)	15,485,997
Other	(28,681)	437,967	174,379	282,085
Change in non-cash working capital	**3,364,253**	8,452,319	**3,482,963**	4,951,176

14. DEFERRED INCOME TAXES

During the nine months ended September 30, 2013, impairment of $68,837,915 was recorded by the Corporation as a result of the execution of the Amended Farm-in Agreement with Statoil. The reduction of the carrying value of the Corporation's goodwill and exploration and evaluation assets has resulted in a deferred tax recovery of $15,090,780 for the nine months ended September 30, 2013 because the tax basis of the Corporation's assets now exceeds the accounting basis. The Corporation's deferred tax asset has not been recorded due to lack of certainty over future earnings.

15. 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, restricted cash, term deposits, accounts receivable, accounts payable and accrued liabilities. The fair value of these financial instruments, except for foreign exchange forward contracts, approximates their carrying amounts due to their short terms to maturity.

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 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.

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 September 30, 2013, the Corporation's cash and cash equivalents included $7,173,915 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 $71,739 for the nine months ended September 30, 2013. 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, 2013, 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 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.

With current working capital on hand and the completion of the Amended Farm-in Agreement with Statoil, 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.

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, 2013 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.

16. 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 financial statements. For the three and nine months ended September 30, 2013, the Corporation was charged nil and $135,906 of ASA expense, respectively. As at September 30, 2013, $52,259 was receivable from Rodinia.

NOTES *(continued)*

17. 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 September 30, 2013
Year 5	May 21, 2012	May 20, 2014	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 September 30, 2013
Year 5	May 21, 2012	May 20, 2014	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 September 30, 2013
Year 4	December 14, 2011	December 13, 2014	Acquire seismic data or drill a well	Completed
Year 5	December 14, 2012	December 13, 2015	Drill an exploration well	Outstanding

NOTES *(continued)*

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 September 30, 2013
Year 3	June 14, 2010	December 13, 2013	Acquire seismic data	Completed
Year 4	December 14, 2011	June 13, 2014	Drill an exploration well	Outstanding
Year 5	June 14, 2013	June 13, 2015	Drill an exploration well	Outstanding

After satisfying the five year minimum work requirements for each of the exploration permits, the acreage is subject to relinquishment provisions. However, each of the exploration permits can enter into up to two additional five year work terms subject to the Corporation successfully renegotiating new minimum work requirements with the Northern Territory government.

EPA 213 and EPA 252

EPA 213 and EPA 252 are currently in a moratorium, so the Corporation and its joint venture partner are unable to access these leases to commence operations at this time.

Statoil Farm-In Agreement

On June 10, 2013, the Corporation entered into the Amended Farm-in Agreement with Statoil whereby Statoil committed to spend the next US$50 million throughout the remainder of 2013 and 2014. Pursuant to the Amended Farm-in Agreement, Statoil has been transferred 80% 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$175.0 million over three phases to the end of 2016.

Under the terms of the Amended Farm-in Agreement, up to the next US$160 million of exploration costs will be fully funded by Statoil as follows:

<u>Phase 1 & 2A (2013 and 2014):</u>

- Statoil will spend the next US$50 million on exploration (PetroFrontier – nil) and assumed operatorship on September 1, 2013

- At the end of Phase 2A, Statoil will have the option to continue to Phase 2B; if Statoil elects not to continue, it must return to PetroFrontier 50% of its former working interest in the Permits, such that ownership will then be: Statoil (30%), PetroFrontier (70%)

NOTES *(continued)*

Phase 2B (2015):

- Upon proceeding to Phase 2B, Statoil will spend the next US$30 million on exploration (PetroFrontier – nil)

- At the end of Phase 2B, Statoil will have the option to continue to Phase 3; if Statoil elects not to continue to Phase 3, then it must return to PetroFrontier 25% of its former working interest in the Permits, such that ownership will then be Statoil (55%), PetroFrontier (45%)

Phase 3 (2016):

- Upon proceeding to Phase 3, Statoil will spend the next US$80 million on exploration (PetroFrontier – nil)

- At the end of Phase 3, Statoil will own 80% and PetroFrontier will own 20% of PetroFrontier's former working interest in the Permits

At the end of Phase 3, Statoil will have completed its funding obligations under the Amended Farm-in Agreement and the sharing of future costs between Statoil and PetroFrontier will be based on their then respective ownership interests.

As at September 30, 2013, the Corporation had the following material contracts and commitments:

	Total	**2013**	**2014**	**2015**	**2016**	**2017**
EP 103 minimum commitments	**999,543**	-	999,543	-	-	-
EP 104 minimum commitments	**981,129**	-	981,129	-	-	-
EP 127 minimum commitments	**981,129**	-	-	981,129	-	-
EP 128 minimum commitments	**1,865,391**	-	940,464	924,927	-	-
	4,827,192	**-**	**2,921,136**	**1,906,056**	**-**	**-**

The amounts referenced above represent the Corporation's minimum commitments under EP 103, EP 104, EP 127 and EP 128 given the Corporation's current working interest in these respective leases. However, all of these minimum commitments are expected to be fully funded by Statoil as part of the 2014 work program and budget in accordance with the Amended Farm-in Agreement.

During the three and nine months ended September 30, 2013, the Corporation expensed $45,415 and $246,013 relating to operating leases it maintained throughout the year.

NOTES *(continued)*

18. SEGMENTED INFORMATION

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

	Three months ended September 30, 2013		Three months ended September 30, 2012	
	Canada ($)	Australia ($)	Canada ($)	Australia ($)
EXPENSES				
General and administrative	902,459	628,586	825,976	346,698
(Gain)/loss on marketable securities	(1,163)	-	12,826	-
Foreign exchange (gain)/loss	(6,133)	-	291,796	-
Financial derivative instruments (note 15)	-	-	-	-
Share-based compensation (note 12)	24,147	-	297,749	-
Depreciation	210	2,191	343	13,001
Impairment	-	-	-	-
Results from operating activities	919,520	630,777	1,428,690	359,699
Finance income	1,516	67,533	14,674	54,188
Finance costs	(272)	(1,825)	2,931	(12,937)
Net finance income	1,244	65,708	17,605	41,251
Net loss before taxes	(918,276)	(565,069)	(1,411,085)	(318,448)
Deferred tax recovery	-	-	-	-
NET LOSS	**(918,276)**	**(565,069)**	**(1,411,085)**	**(318,448)**
Exploration and evaluation assets (end of period)	-	44,171,490	-	107,691,436
Exploration and evaluation expenditures	-	(86,079)	-	6,223,102
Total assets (end of period)	685,727	54,931,373	6,565,400	148,027,091
Total liabilities (end of period)	17,312	3,233,305	261,156	38,680,056

NOTES *(continued)*

	Nine months ended September 30, 2013		Nine months ended September 30, 2012	
	Canada ($)	Australia ($)	Canada ($)	Australia ($)
EXPENSES				
General and administrative	1,742,201	2,012,019	1,804,203	2,199,202
(Gain)/loss on marketable securities	1,442	-	41,829	-
Foreign exchange loss	10,759	-	447,027	-
Financial derivative instruments (note 15)	-	-	(150,631)	-
Share-based compensation (note 12)	237,514	-	1,278,404	-
Depreciation	594	29,493	740	38,629
Impairment	-	68,837,915	-	-
Results from operating activities	1,992,510	70,879,427	3,421,572	2,237,831
Finance income	6,749	149,359	97,962	157,977
Finance costs	(722)	(28,276)	(1,041)	(31,966)
Net finance income	6,027	121,083	96,921	126,011
Net loss before taxes	(1,986,483)	(70,758,344)	(3,324,651)	(2,111,820)
Deferred tax recovery	-	15,090,780	-	-
NET LOSS	**(1,986,483)**	**(55,667,564)**	**(3,324,651)**	**(2,111,820)**
Exploration and evaluation assets (end of period)	-	44,171,490	-	107,691,436
Exploration and evaluation expenditures	-	(10,003)	-	12,360,956
Total assets (end of period)	685,727	54,931,373	6,565,400	148,027,091
Total liabilities (end of period)	17,312	3,233,305	261,156	38,680,056

NOTES *(continued)*

19. SUBSEQUENT EVENTS

On October 25, 2013, the Corporation issued an aggregate of 3,920,000 stock options to officers, directors and employees. These stock options are all exercisable at a price of $0.18 per share, vest as to one third on the date of grant, one third on each of the first and second anniversaries of the date of grant and expire five years after the date of grant.

On October 31, 2013, Mr. Paul Bennett retired as the Corporation's President and Chief Executive Officer and also resigned from the Board of Directors. Effective upon Mr. Bennett's retirement, Mr. Earl Scott was promoted from Chief Operating Officer to President and Chief Executive Officer. Concurrently, Mr. Scott was also appointed to the Board of Directors. Mr. Scott also purchased 200,000 common shares of the Corporation from treasury at a price of $0.18 per share.

NOTES *(continued)*

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

Earl Scott
President & 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

Michael Hibberd
Businessman
Calgary, Alberta

Officers
Earl Scott
President & Chief Executive Officer

Shane J. Kozak
Vice President Finance &
Chief Financial Officer

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