PetroFrontier

Annual Consolidated Financial Statements for the years ended December 31, 2013 and 2012

MANAGEMENT'S REPORT

To the Shareholders of PetroFrontier Corp.:

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

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

"signed"	"signed"
Earl P. Scott, P. Eng. Chief Executive Officer	Shane J. Kozak, CA Vice President Finance and Chief Financial

Calgary, Canada
April 24, 2014

April 24, 2014

Independent Auditor's Report

To the Shareholders of
PetroFrontier Corp.

We have audited the accompanying consolidated financial statements of PetroFrontier Corp. and its subsidiary, which comprise the consolidated statement of financial position as at December 31, 2013 and December 31, 2012 and the consolidated statement of loss and comprehensive loss, changes in equity, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

PricewaterhouseCoopers LLP
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Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PetroFrontier Corp. and its subsidiaries as at December 31, 2013 and December 31, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

PetroFrontier Corp.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Canadian Dollars)

As at	**December 31, 2013**	**December 31, 2012**
ASSETS		
Current		
Cash and cash equivalents (Note 5)	7,459,605	3,944,537
Restricted cash (Note 6)	-	7,688,228
Marketable securities	64,719	3,777
Accounts receivable (Note 7)	1,595,084	3,720,394
Prepaid expenses and deposits (Note 8)	38,350	722,311
	9,157,758	16,079,247
Corporate assets (Note 11)	-	47,913
Exploration and evaluation assets (Note 9 & 11)	43,712,206	112,614,425
Goodwill (Note 9 & 10)	-	8,917,774
	52,869,964	**137,659,359**
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 12)	1,651,637	3,787,574
Decommissioning liabilities (Note 13)	-	1,742,709
Deferred tax liability (Note 16)	-	16,210,131
	1,651,637	21,740,414
SHAREHOLDERS' EQUITY		
Share capital (Note 14)	125,952,046	125,916,046
Warrants (Note 14)	1,220,886	1,220,886
Contributed surplus (Note 14)	9,548,106	9,027,112
Accumulated other comprehensive income (Note 14)	(6,495,474)	581,633
Deficit	(79,007,237)	(20,826,732)
	51,218,327	115,918,945
	52,869,964	**137,659,359**

See accompanying notes to the consolidated financial statements

Commitments and contingencies (Note 19)

Approved on behalf of the Board

"signed" "signed"

Martin P. McGoldrick
Director

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

PetroFrontier Corp.

CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

(Canadian Dollars)

	For the years ended December 31	
	2013	**2012**
EXPENSES		
General and administrative	4,440,994	5,379,900
(Gain)/loss on marketable securities	(60,942)	45,506
Foreign exchange loss/(gain)	(11,088)	164,143
Financial derivative instruments (Note 17)	-	(150,631)
Share-based compensation (Note 14)	520,994	1,435,119
Depreciation	56,057	52,729
Loss on decommissioning liabilities	-	31,867
Impairment (Note 9)	68,488,582	-
Results from operating activities	**73,434,597**	**6,958,633**
Finance income	194,324	324,011
Finance costs	(31,012)	(41,865)
Net finance income	**163,312**	**282,146**
Net loss before taxes	**(73,271,285)**	**(6,676,487)**
Deferred tax recovery (Note 16)	15,090,780	-
NET LOSS	**(58,180,505)**	**(6,676,487)**
OTHER COMPREHENSIVE EARNINGS		
Foreign exchange (loss) on foreign operations	(7,077,107)	(161,495)
COMPREHENSIVE LOSS	**(65,257,612)**	**(6,837,982)**
Net loss per share (Note 14)		
Basic and diluted	**0.73**	**0.10**

PetroFrontier Corp.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Canadian Dollars)

	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance at January 1, 2013	**125,916,046**	**1,220,886**	**9,027,112**	**581,633**	**(20,826,732)**	**115,918,945**
Net loss	-	-	-	-	(58,180,505)	(58,180,505)
Foreign exchange loss on translation of foreign operations	-	-	-	(7,077,107)	-	(7,077,107)
Exercise of stock options	-	-		-	-	
Private placement	36,000	-	-	-	-	36,000
Share-based compensation	-	-	520,994	-	-	520,994
Balance at December 31, 2013	**125,952,046**	**1,220,886**	**9,548,106**	**(6,495,474)**	**(79,007,237)**	**51,218,327**
Balance at January 1, 2012	**117,189,874**	**1,073,250**	**6,528,103**	**743,128**	**(14,150,245)**	**111,384,110**
Net loss	-	-	-	-	(6,676,487)	(6,676,487)
Foreign exchange loss on translation of foreign operations	-	-	-	(161,495)	-	(161,495)
Exercise of stock options	27,360	-	(9,360)	-	-	18,000
Expiry of warrants	-	(1,073,250)	1,073,250	-	-	-
Private placement	8,698,812	1,220,886	-	-	-	9,919,698
Share-based compensation	-	-	1,435,119	-	-	1,435,119
Balance at December 31, 2012	**125,916,046**	**1,220,886**	**9,027,112**	**581,633**	**(20,826,732)**	**115,918,945**

See accompanying notes to the consolidated financial statements

PetroFrontier Corp.

CONSOLIDATION STATEMENT OF CASH FLOWS

(Canadian dollars)

	For the years ended December 31	
	2013	**2012**
Cash provided by (used in)		
OPERATING		
Net loss from continuing operations	(58,180,505)	(6,676,487)
Unrealized (gain)/loss on marketable securities	(60,942)	45,506
Financial instruments	-	40,198
Share-based compensation (Note 14)	520,994	1,435,119
Deferred tax recovery	(15,090,780)	-
Loss on decommissioning liabilities	-	31,867
Expenditures on decommissioning liabilities	-	(127,867)
Net finance income	(163,312)	(282,146)
Depreciation	56,057	52,729
Impairment (Note 9)	68,488,582	-
	(4,429,906)	(5,481,081)
Change in non-cash working capital (note 15)	723,312	(5,067,210)
Cash flow from operating activities	**(3,706,594)**	**(10,548,291)**
FINANCING		
Issuance of common shares net of share issue costs	36,000	10,000,000
Share issue costs associated with private placement	-	(80,302)
Issuance of common shares from exercise of stock options	-	18,000
Interest paid	(9,950)	(10,894)
Cash flow from financing activities	**26,050**	**9,926,804**
INVESTING		
Exploration and evaluation expenditures	10,003	(14,945,160)
Corporate asset expenditures	(8,144)	(18,066)
Term deposits	-	2,500,000
Restricted cash (Note 6)	7,688,228	(7,688,228)
Interest received	194,324	324,011
Cash flow from investing activities	**7,884,411**	**(19,827,443)**
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(688,799)	34,908
Increase/(decrease) in cash and cash equivalents	3,515,068	(20,414,022)
Cash and cash equivalents and term deposits, beginning of year	3,944,537	24,358,559
Cash and cash equivalents, end of year	**7,459,605**	**3,944,537**

See accompanying notes to the consolidated financial statements

PetroFrontier Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

PetroFrontier Corp. (the "Corporation") was incorporated in Alberta, Canada on February 6, 2009 under the name Australia Energy Corp. On December 31, 2010, the Corporation amalgamated with Pendulum Capital Corporation and filed articles of amalgamation to change its name to PetroFrontier Corp. The Corporation's registered office is 520, 1011 – 1st Street S.W. Calgary, Alberta, Canada T2R 1J2. 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"). The consolidated financial statements of the Corporation as at and for the year ended December 31, 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, seismic acquisitions and exploration drilling. 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 , 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 million during the earning period ending in 2016. The Amended Farm-in Agreement redefined the previously agreed work phases and Statoil's corresponding capital expenditure commitments. On September 1, 2013, Statoil assumed operatorship of the Corporation's lands.

These consolidated financial statements have been prepared by management in accordance with accounting principles applicable to a going concern, which assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. At December 31, 2013, the Corporation had working capital of $7,506,121, cash outflows from operating activities of $3,706,594, a deficit of $79,007,237 and a net loss for the year ended December 31, 2013 of $58,180,505 (December 31, 2012 - $12,291,673, $10,548,291, $20,826,732, and $6,676,487, respectively). The Corporation's petroleum licenses are in the exploration stage.

With current working capital on hand, the Corporation expects to have adequate funding to provide for general operations and to meet all of the Corporation's future commitments for a period of at least 12 months. The Corporation's future commitments are disclosed in note 19.

3. BASIS OF PRESENTATION

A) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of December 31, 2013. On April 24, 2014, the Board of Directors approved the consolidated financial statements.

B) Basis of measurement

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

C) Functional and presentation currency

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

D) Use of estimates and judgments

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

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

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

Note 4 F) – valuation of exploration and evaluation costs

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

Note 4 G) – business combinations and goodwill

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

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

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

Note 4 H) – provisions and contingencies

The Corporation recognizes a provision for decommissioning and site restoration costs expected to be incurred in order to abandon the wells drilled and to carry out site restoration work. The provisions are estimated taking into consideration existing technology and current prices after adjusting for expected inflation and discounted using rates reflecting current market assessments of the time value of money and where appropriate, the risks specific to the liability. The Corporation makes an estimate based on its experience and historical data (see note 13).

Note 4 L) – measurement of share-based payments

The Corporation issues stock options to certain directors, employees and third parties. In accordance with *IFRS 2 Share-based payments*, in determining the fair value of options granted, the Corporation has applied the Black-Scholes model and as a result makes assumptions for the expected volatility, expected life, riskfree rate, behavioral considerations and expected dividend yield. The fair value of options granted at December 31, 2012 is shown in note 14.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

A) Basis of consolidation

(i) Subsidiaries

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

(ii) Jointly controlled operations

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

(iii) Transactions eliminated on consolidation

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

B) Foreign currency

(i) Foreign currency transactions

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

(ii) Foreign operations

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

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

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

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

C) Cash and cash equivalents

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

D) Financial instruments

(i) Non-derivative financial instruments

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

(ii) Derivative financial instruments

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

E) Property, plant and equipment

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

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

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

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

F) Exploration and evaluation assets

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

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

G) Business combinations and goodwill

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

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

H) Provisions

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

Decommissioning liabilities

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

I) Income taxes

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

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

J) Finance income and costs

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

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

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

K) Per share amounts

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

L) Share-based compensation plan

The Corporation has a share-based compensation plan enabling officers, directors, employees and key consultants to purchase common shares at exercise prices equal to the price determined by the directors on the date the option is granted. Stock option awards are accounted for based on the fair value method of accounting (Note 14). Under this method, share-based compensation is recorded as an expense over the vesting period of the option, with a corresponding increase in contributed surplus. Share-based compensation is based on the estimated fair value of the related stock option at the time of the grant using the Black-Scholes option model, except for stock options granted to consultants that are revalued at subsequent reporting dates. The Black-Scholes option model is based on significant assumptions such as volatility, dividend yield and expected term. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. When stock options are exercised, the consideration paid to the Corporation, along with amounts previously credited to contributed surplus, is credited to share capital.

M) Changes in accounting policies

Effective January 1, 2013, the Corporation adopted the following new accounting standards. The adoption of these standards did not have a material impact on the Corporation's financial statements.

- IFRS 7, *"Financial Instruments"*, provides additional information about offsetting of financial assets and financial liabilities. Additional disclosures will be required to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position.

- IFRS 10, *"Consolidated Financial Statements"*, provides a single model to be applied in control analysis for all investees including special purpose entities.

- IFRS 11, *"Joint Arrangements"*, redefines joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint operations will need to be proportionately consolidated and joint ventures to be equity accounted.

- IFRS 12, *"Disclosure of Interests in Other Entities"*, combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities.

- IFRS 13, *"Fair Value Measurement"*, defines the fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

- IAS 28, *Investments in Associates and Joint Ventures,* was amended as a consequence of the issuance of IFRS 10, IFRS 11 and IFRS 12. The amended IAS 28 sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

N) Future accounting pronouncements

The Corporation will be required to adopt the following:

- IAS 36, *Impairment of Assets,* was amended regarding disclosures of the recoverable amounts of CGUs with impairment. This amendment must be adopted January 1, 2014 and is expected to result in additional disclosures if impairments are recognized.

- IFRS 9, *Financial Instruments*, the first phase of the project to replace IAS 39, *Financial Instruments: Recognition and Measurement* has been issued but the adoption date has been deferred from January 1, 2015. A new date will be decided upon when the entire IFRS 9 project is closer to completion. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classifications: amortized cost and fair value. Portions of the standard remain in development and the full impact of the standard on the Corporation's financial statements will not be known until the project is complete.

5. CASH AND CASH EQUIVALENTS

	December 31, 2013 ($)	**December 31, 2012 ($)**
Cash at bank and on hand	7,459,605	3,944,537
Cash and cash equivalents	**7,459,605**	**3,944,537**

6. RESTRICTED CASH

	December 31, 2013 ($)	**December 31, 2012 ($)**
Operating and trust accounts (i)	-	7,454,895
Other (ii)	-	233,333
Restricted cash	**-**	**7,688,228**

(i) The Corporation had established various operating and trust accounts to effectively manage and ensure the timely payment of capital expenditures for the joint ventures it operated. The amounts deposited into these various accounts were considered restricted to the operations of the joint ventures. As at December 31, 2013, the Corporation was no longer required to maintain these operating and trust accounts because Statoil assumed operatorship of the joint ventures on September 1, 2013.

(ii) The Corporation had no term deposits outstanding as at December 31, 2013 and three term deposits outstanding as at December 31, 2012.

7. ACCOUNTS RECEIVABLE

	December 31, 2013 ($)	December 31, 2012 ($)
Trade receivables	1,595,084	1,814,930
Joint venture receivables	-	1,905,464
Allowance for doubtful accounts	-	-
Accounts receivable	**1,595,084**	**3,720,394**

8. PREPAID EXPENSES AND DEPOSITS

	December 31, 2013 ($)	December 31, 2012 ($)
Environmental and abandonment deposits	-	631,687
Rent, insurance and other	38,350	90,624
Prepaid expenses and deposits	**38,350**	**722,311**

As at December 31, 2013, the Corporation no longer maintained any environmental and abandonment deposits with the Northern Territory government because Statoil assumed operatorship of the joint ventures on September 1, 2013.

9. IMPAIRMENT

	Year ended December 31, 2013 ($)	Year ended December 31, 2012 ($)
Impairment of goodwill	9,149,570	-
Impairment of exploration and evaluation assets	59,339,012	-
	68,488,582	**-**

The Corporation's goodwill at December 31, 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 year ended December 31, 2013 (year ended December 31, 2012 - nil). See note 10 for discussion regarding the Corporation's goodwill.

The Corporation's exploration and evaluation assets at December 31, 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 $59,339,012 was recorded during the year ended December 31, 2013 (year ended December 31, 2012 - nil). See note 11 for discussion regarding the Corporation's exploration and evaluation assets.

The impairment recorded as a result of the execution of the Amended Farm-in Agreement with Statoil represents a Level 3 fair value measurement.

10. GOODWILL

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

Goodwill was assessed for impairment as at December 31, 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)*

11. EXPLORATION AND EVALUATION AND CORPORATE ASSETS

	Exploration & Evaluation Assets ($)	Corporate Assets ($)
Cost:		
At December 31, 2012	112,614,425	126,806
Cumulative translation adjustments and additions	(9,563,207)	8,144
At December 31, 2013	**103,051,218**	**134,950**
Accumulated impairment:		
At December 31, 2012	-	-
Impairment	(59,339,012)	-
At December 31, 2013	**(59,339,012)**	**-**
Accumulated depletion and depreciation:		
At December 31, 2012	-	(78,893)
Depletion and depreciation	-	(56,057)
At December 31, 2013	**-**	**(134,950)**
Net Book Value:		
At December 31, 2012	112,614,425	47,913
At December 31, 2013	**43,712,206**	**-**

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 $59,339,012 was recorded.

During the year ended December 31, 2013 and 2012, no general and administrative expenses were capitalized.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2013 ($)	December 31, 2012 ($)
Accrued liabilities	281,463	2,240,733
Trade payables	1,370,174	1,546,841
	1,651,637	**3,787,574**

13. DECOMMISSIONING LIABILITIES

The total future decommissioning liabilities were estimated by management based on the expected costs to abandon and restore the well sites and the facilities and the estimated timing of costs to be incurred in future periods. The Corporation has estimated that the total undiscounted amount of cash flows required to settle its decommissioning liabilities at December 31, 2013 was nil (December 31, 2012 – $1,830,571). For the year ended December 31, 2012, the Corporation used a risk free rate of 2.7% to calculate the present value of the decommissioning liabilities and an inflation rate of 2.2% was used to inflate the costs. 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:

	December 31, 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 year	**-**	**1,742,709**

14. SHARE CAPITAL

A) Authorized

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

B) Issued – common shares of PetroFrontier

	Year Ended December 31, 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)	200,000	36,000	15,384,615	8,698,812
Exercise of stock options (ii)	-	-	18,000	27,360
Balance, end of year	**79,600,768**	**125,952,046**	**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 year	**15,384,615**	**1,220,886**	**15,384,615**	**1,220,886**

Issue of Common Shares

(i) In November 2013, the Corporation closed on a private placement offering for gross proceeds of $36,000 through the issuance of 200,000 common shares at a price of $0.18 per common share. The shares were subscribed for by the Corporation's President and Chief Executive Officer.

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 year ended December 31, 2013:

	Number of options	Weighted average price ($)
Balance, December 31, 2012	4,259,167	2.00
Granted	3,920,000	0.18
Exercised	-	-
Forfeited	(545,000)	2.59
Balance, December 31, 2013	**7,634,167**	**1.03**

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 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**
$0.18	3,920,000	4.8	$0.18	1,306,665	$0.18
$0.25	200,000	0.2	$0.25	200,000	$0.25
$1.00	801,667	1.1	$1.00	801,667	$1.00
$1.20	105,000	0.2	$1.20	105,000	$1.20
$1.99	500,000	3.1	$1.99	375,000	$1.99
$2.00	1,220,000	2.0	$2.00	1,220,000	$2.00
$3.05	852,500	2.4	$3.05	852,500	$3.05
$3.09	35,000	2.2	$3.09	35,000	$3.09
	7,634,167	**2.9**	**$1.03**	**4,895,832**	**$1.45**

D) Share-Based Compensation

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

The following table summarizes the changes in contributed surplus:

	December 31, 2013 ($)	**December 31, 2012 ($)**
Balance, beginning of period	9,027,112	6,528,103
Share-based compensation expense	520,994	1,435,119
Expiry of warrants	-	1,073,250
Exercise of stock options	-	(9,360)
Balance, end of year	**9,548,106**	**9,027,112**

The fair value of the options granted during the year ended December 31, 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	**December 31, 2013**	**December 31, 2012**
Risk free interest rate (%)	1.69	1.25
Expected life (years)	5.0	5.0
Expected volatility (%)	132	106
Expected dividends	-	-
Estimated forfeiture rate (%)	2	-
Weighted average fair value of options granted ($)	**0.16**	**1.54**

E) Per common share amounts

The basic weighted average number of common shares outstanding for the years ended December 31, 2013 and 2012 were 79,428,165 and 68,706,957. As the Corporation has recorded a loss for the years ended December 31, 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 years ended December 31, 2013 and 2012, 3,920,000 and 200,000 options that could potentially dilute basic earnings per share in the future were not included in the calculation of diluted earnings per share because they are antidilutive.

F) Accumulated Other Comprehensive Income

	December 31, 2013 ($)	**December 31, 2012 ($)**
Balance, beginning of period	581,633	743,128
Foreign exchange loss on translation of foreign operations	(7,077,107)	(161,495)
Balance, end of year	**(6,495,474)**	**581,633**

G) Management of capital structure

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

The Corporation manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Corporation considers its capital structure to include shareholders' equity and working capital.

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.

With current working capital on hand, the Corporation has adequate funding to provide for general operations and to meet the Corporation's future commitments for a period of at least 12 months. The Corporation's future commitments are disclosed in note 19.

15. Supplemental Cash Flow Information

Changes in non-cash working capital

	Year ended December 31, 2013 ($)	Year ended December 31, 2012 ($)
Accounts receivable	2,125,310	(2,320,389)
Prepaid expenses and deposits	683,961	(55,313)
Accounts payables and accrued liabilities	(2,135,937)	(2,468,450)
Other	49,978	(223,058)
Change in non-cash working capital	**723,312**	**(5,067,210)**

During the years ended December 31, 2013 and 2012, the cash interest received by the Corporation totaled $196,015 and $342,199, respectively.

16. DEFERRED TAX LIABILITY

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

	Year ended December 31, 2013 ($)	Year ended December 31, 2012 ($)
Net loss before taxes	(73,271,285)	(6,676,487)
Statutory income tax rate	25.0%	25.0%
Expected recovery	(18,317,821)	(1,669,122)
Add (deduct):		
Non-deductible stock based compensation	130,249	358,780
Goodwill impairment	2,744,871	-
Expiry of warrants	-	134,156
True up	714,527	339,955
Foreign tax rate differential	(3,403,062)	(165,331)
Other	85,474	(406,209)
Change in deferred tax benefits deemed not probable to be recovered	2,954,982	1,407,771
Deferred income tax recovery	**(15,090,780)**	**-**

The following is a summary of the Corporation's deferred tax liability as at December 31, 2013 and 2012:

	2013		2012	
Deferred income tax assets / (liabilities)	**Australia ($)**	**Canada ($)**	**Australia ($)**	**Canada ($)**
Non-capital loss	16,954,893	1,482,947	18,433,687	740,071
Share issue costs	-	256,959	-	468,624
Exploration and evaluation assets and corporate assets	(13,333,284)	6,396	(33,560,696)	196,560
Gain on marketable securities	-	(15,236)	-	-
Unrecognized deferred tax assets	(3,621,609)	(1,731,066)	(1,083,122)	(1,405,255)
Total	**-**	**-**	**(16,210,131)**	**-**

The Corporation has non-capital losses as at December 31, 2013 of approximately $59.5 million (2012 - $61.4 million) in Australia which have no expiry and $5.9 million (2012 - $3.0 million) in Canada which expire between 2030 and 2033. The Corporation has share issue costs of approximately $1.0 million (2012 - $1.9 million) in Canada. Deferred tax assets have not been recognized in respect of all or a portion of these items because it is not probable that future taxable profit will be available against which the Corporation can utilize the benefits.

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

	January 1, 2012 ($)	**Change in temporary difference ($)**	**December 31, 2012 ($)**
Non-capital loss	13,548,878	5,624,880	19,173,758
Share issue costs	660,213	(191,589)	468,624
Exploration and evaluation assets and corporate assets	(28,997,203)	(4,366,933)	(33,364,136)
Unrecognized deferred tax assets	(1,473,747)	(1,014,630)	(2,488,377)
	(16,261,859)	**51,728**	**(16,210,131)**

	January 1, 2013 ($)	**Change in temporary difference ($)**	**December 31, 2013 ($)**
Non-capital loss	19,173,758	(735,918)	18,437,840
Share issue costs	468,624	(211,665)	256,959
Exploration and evaluation assets and corporate assets	(33,364,136)	20,037,248	(13,326,888)
Gain on marketable securities	-	(15,236)	(15,236)
Unrecognized deferred tax assets	(2,488,377)	(2,864,298)	(5,352,675)
	(16,210,131)	**16,210,131**	**-**

17. 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, restricted cash, 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.

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

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

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

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

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

Forward foreign currency exchange rate contracts

The Corporation uses forward foreign currency exchange rate contracts in order to reduce its exposure to currency risks from fluctuations in the Canadian and Australian currencies. These contracts are classified as Level 2 within the fair value hierarchy and are recorded on the Corporation's statement of financial position as an asset or liability based on reporting date fair values. During the year ended December 31, 2012 the Corporation recorded a gain on financial instruments of $150,631. As at December 31, 2013 and 2012, the Corporation had no forward foreign currency exchange rate contracts outstanding.

Credit risk

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

Currency risks

The Corporation is exposed to exchange rate fluctuations in relation to amounts due to services it must purchase in foreign currencies including the Australian and United States dollars. As at December 31, 2013, the Corporation's cash and cash equivalents included $915,249 denominated in Australian dollars (December 31, 2012 – $2,129,692). A decrease or increase of one percent to the Australia / Canada foreign exchange rate would have decreased or increased the other comprehensive loss by $9,152 for the year ended December 31, 2013 (December 31, 2012 – $21,297). Management continually monitors the Corporation's currency risk and believes this exposure is not material to its overall operations. The Corporation uses forward foreign currency exchange rate contracts in order to reduce its exposure to currency risks from fluctuations in the Canadian and Australian currencies.

Interest rate risk

At December 31, 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 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.

With current working capital on hand, the Corporation has adequate funding to provide for general operations and to meet the Corporation's future commitments for a period of at least 12 months. The Corporation's future commitments are disclosed in note 19.

Market risk

Market risk is comprised of currency risk, interest rate risk and other price risks which consist primarily of fluctuations in petroleum and natural gas prices. With no bank debt as at December 31, 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.

18. RELATED PARTY TRANSACTIONS

In accordance with the terms of an Administrative Services Agreement ("ASA"), Rodinia Oil Corp. ("Rodinia") provided certain administrative services and office accommodations to the Corporation and vice versa on a cost recovery basis. ASA charges were recorded to general and administrative expenses in the Corporation's financial statements. For the year ended December 31, 2013 and 2012, the Corporation was charged $135,906 and $554,192 of ASA expense, respectively. As at December 31, 2013, $19,678 was receivable from Rodinia, which was collected subsequent to December 31, 2013 (December 31, 2012 – $64,136 payable).

19. COMMITMENTS AND CONTINGENCIES

EP 103 Minimum Work Plan Commitment

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

Year	Start	End	Minimum work requirements	Status as at December 31, 2013
Year 5	May 21, 2012	May 20, 2015	Drill one exploration well	Outstanding

EP 104 Minimum Work Plan Commitment

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

Year	Start	End	Minimum work requirements	Status as at December 31, 2013
Year 5	May 21, 2012	May 20, 2015	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 December 31, 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

EP 128 Minimum Work Plan Commitments

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

Year	Start	End	Minimum work requirements	Status as at December 31, 2013
Year 3	June 14, 2010	December 13, 2013	Acquire seismic data	Completed
Year 4	December 14, 2011	December 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. 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 million during the earning period ending in 2016. The Amended Farm-in Agreement redefined the previously agreed work phases and Statoil's corresponding capital expenditure commitments, which under the Amended Farm-in Agreement are additional to the approximately $15 million spent by Statoil in 2012, as follows:

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

- Statoil will spend 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%)

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 December 31, 2013, the Corporation had the following material contracts and commitments:

	Total ($)	**2014 ($)**	**2015 ($)**	**2016 ($)**	**2017 ($)**
EP 103 minimum commitments	**1,198,204**	-	1,198,204	-	-
EP 104 minimum commitments	**1,077,909**	-	1,077,909	-	-
EP 127 minimum commitments	**1,179,977**	-	1,179,977	-	-
EP 128 minimum commitments	**1,846,385**	930,882	915,503	-	-
Leases	**217,239**	69,922	69,922	71,157	6,238
	5,519,714	**1,000,804**	**4,441,515**	**71,157**	**6,238**

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 15% - 20% 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 (the "2014 WP&B") in accordance with the Amended Farm-in Agreement. Baraka Energy & Resources Ltd ("Baraka"), a 25% working interest owner in EP 127 and EP128 is disputing the 2014 WP&B on these blocks. The Corporation does not see merit in Baraka's objections and the Corporation is keen to move forward with the 2014 WP&B. The joint operating agreements ("JOA") among the parties do provide for the potential dilution of Baraka's 25% working interest should it refuse to pay its cash calls. Statoil and PetroFrontier together hold 75% of the working interest and have voted to approve the 2014 WP&B in accordance with the JOA. The outcome of this dispute could result in amendments to the 2014 WP&B, which could have an impact on the Corporation's requirements to fund a portion of the commitments disclosed above.

During the years ended December 31, 2013 and 2012, the Corporation expensed $272,606 and $199,299 relating to operating leases it maintained throughout the years, respectively.

20. SEGMENTED INFORMATION

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

	Year ended December 31, 2013		Year ended December 31, 2012	
	Canada ($)	**Australia ($)**	**Canada ($)**	**Australia ($)**
EXPENSES				
General and administrative	2,352,425	2,088,569	2,122,723	3,257,177
Gain/(loss) on marketable securities	(60,942)	-	45,506	-
Foreign exchange (gain)/loss	-	(11,088)	153,754	10,389
Financial derivative instruments (Note 17)	-	-	(150,631)	-
Share-based compensation (Note 14)	520,994	-	1,435,119	-
Depreciation	594	55,463	915	51,814
Loss on decommissioning liabilities	-	-	31,867	-
Impairment (Note 9)	-	68,488,582	-	-
Results from operating activities	**2,813,071**	**70,621,526**	**3,639,253**	**3,319,380**
Finance income	7,275	187,049	103,926	220,085
Finance costs	(1,525)	(29,487)	(1,249)	(40,616)
Net finance income	**5,750**	**157,562**	**102,677**	**179,469**
Net loss before taxes	(2,807,321)	(70,463,964)	(3,536,576)	(3,139,911)
Deferred tax recovery (Note 16)	-	15,090,780	-	-
NET LOSS	**(2,807,321)**	**(55,373,184)**	**(3,536,576)**	**(3,139,911)**
Exploration and evaluation assets (end of year)	-	43,712,206	-	112,614,425
Exploration and evaluation expenditures	-	(10,003)	-	14,945,160
Total assets (end of year)	6,800,903	46,069,061	1,983,777	135,675,582

NOTES *(continued)*

21. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	Year ended December 31	
	2013 ($)	**2012 ($)**
Salaries, directors fees and other benefits	956,588	863,239
Severance	-	-
Share-based compensation	513,055	1,421,246
	1,469,643	**2,284,485**

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

22. EXPENSES BY NATURE

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

	Year ended December 31	
	2013 ($)	**2012 ($)**
Salaries and benefits	2,786,183	2,997,206
Office costs	251,254	1,094,198
Professional fees	1,288,166	1,190,208
Corporate and regulatory	80,075	123,107
Other	35,316	-
Overhead recoveries	-	(24,819)
	4,440,994	**5,379,900**

23. SUBSEQUENT EVENTS

Subsequent to December 31, 2013, the Corporation announced that the Joint Venture Operating Committee had approved the 2014 WP&B. The 2014 WP&B includes the drilling of up to five vertical exploration wells. All wells will include an extensive coring and open hole evaluation program and up to three of the wells will be hydraulically fractured and production tested.

Baraka, a 25% working interest owner in EP 127 and EP128 is disputing the 2014 WP&B on these blocks. The Corporation does not see merit in Baraka's objections and the Corporation is keen to move forward with the 2014 WP&B. The joint operating agreements ("JOA") among the parties do provide for the potential dilution of Baraka's 25% working interest should it refuse to pay its cash calls. Statoil and PetroFrontier together hold 75% of the working interest and have voted to approve the 2014 WP&B in accordance with the JOA. The outcome of this dispute could result in amendments to the 2014 WP&B, but are not expected to have a material impact on the overall technical results of the 2014 WP&B and information gathered.

NOTES *(continued)*

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

Earl P. Scott
President and 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 P. Scott
President and Chief Executive Officer

Shane J. Kozak
Vice President Finance and
Chief Financial Officer

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