PetroFrontier

Condensed Consolidated
Interim Financial Statements
As at and for the three and nine months ended
September 30, 2014

PetroFrontier Corp.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

(Canadian Dollars)

As at	**September 30, 2014**	**December 31, 2013**
ASSETS		
Current		
Cash and cash equivalents (note 4)	6,490,769	7,459,605
Marketable securities	9,484	64,719
Accounts receivable (note 5)	4,694,829	1,595,084
Prepaid expenses and deposits	34,615	38,350
	11,229,697	9,157,758
Exploration and evaluation assets (note 7)	-	43,712,206
	11,229,697	**52,869,964**
LIABILITIES		
Current		
Accounts payable and accrued liabilities (note 8)	823,774	1,651,637
SHAREHOLDERS' EQUITY		
Share capital (note 9)	125,952,046	125,952,046
Warrants (note 9)	-	1,220,886
Contributed surplus	10,996,024	9,548,106
Accumulated other comprehensive income	(5,285,205)	(6,495,474)
Deficit	(121,256,942)	(79,007,237)
	10,405,923	51,218,327
	11,229,697	**52,869,964**

See accompanying notes to the condensed consolidated interim financial statements

Commitments and contingencies (note 12)

Subsequent events (note 14)

PetroFrontier Corp.

CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

(Unaudited)

(Canadian Dollars)

	Three months ended September 30		Nine months ended September 30	
	2014	2013	**2014**	2013
EXPENSES				
General and administrative	**719,428**	1,531,045	**1,678,914**	3,754,220
Loss/(gain) on marketable securities	**38,340**	(1,163)	**55,235**	1,442
Foreign exchange (gain)/loss	**-**	(6,133)	**(280)**	10,759
Share-based compensation (note 9)	**75,081**	24,147	**227,032**	237,514
Depreciation	**-**	2,401	**-**	30,087
Impairment (note 6)	**40,508,100**	-	**40,508,100**	68,837,915
Results from operating activities	**41,340,949**	1,550,297	**42,469,001**	72,871,937
Finance income	**168,312**	69,049	**219,296**	156,108
Finance costs	**-**	(2,097)	**-**	(28,998)
Net finance income	**168,312**	66,952	**219,296**	127,110
NET LOSS BEFORE TAXES	**(41,172,637)**	(1,483,345)	**(42,249,705)**	(72,744,827)
Deferred tax recovery	**-**	-	**-**	15,090,780
NET LOSS	**(41,172,637)**	(1,483,345)	**(42,249,705)**	(57,654,047)
OTHER COMPREHENSIVE (LOSS) EARNINGS				
Items that may be reclassified subsequently to net income (loss):				
Foreign exchange gain/(loss) on foreign operations	**(1,446,341)**	(201,595)	**1,210,269**	(6,135,929)
COMPREHENSIVE LOSS	**(42,618,978)**	(1,684,940)	**(41,039,436)**	(63,789,976)
Net loss per share				
Basic and diluted (note 9)	**(0.52)**	(0.02)	**(0.53)**	(0.73)

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, 2014	**125,952,046**	**1,220,886**	**9,548,106**	**(6,495,474)**	**(79,007,237)**	**51,218,327**
Net loss	-	-	-	-	(42,249,705)	(42,249,705)
Foreign exchange gain on translation of foreign operations	-	-	-	1,210,269	-	1,210,269
Share-based compensation	-	-	227,032	-	-	227,032
Expiry of warrants	-	(1,220,886)	1,220,886	-	-	-
Balance at September 30, 2014	**125,952,046**	**-**	**10,996,024**	**(5,285,205)**	**(121,256,942)**	**10,405,923**
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

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	
	2014	2013	**2014**	2013
Cash provided by (used in)				
OPERATING				
Net loss from continuing operations	**(41,172,637)**	(1,483,345)	**(42,249,705)**	(57,654,047)
Unrealized loss/(gain) on marketable securities	**38,340**	(1,163)	**55,235**	1,442
Depreciation	**-**	2,401	**-**	30,087
Share-based compensation	**75,081**	24,147	**227,032**	237,514
Net finance income	**(168,312)**	(66,952)	**(219,296)**	(127,110)
Deferred tax recovery	**-**	-	**-**	(15,090,780)
Impairment	**40,508,100**	-	**40,508,100**	68,837,915
	(719,428)	(1,524,912)	**(1,678,634)**	(3,764,979)
Change in non-cash working capital (Note 10)	**(4,194,429)**	3,364,253	**(3,852,978)**	3,482,963
Cash flow from (used in) operating activities	**(4,913,857)**	1,839,341	**(5,531,612)**	(282,016)
FINANCING				
Finance costs	**-**	(2,097)	**-**	(7,937)
Cash flow used in financing activities	**-**	(2,097)	**-**	(7,937)
INVESTING				
Exploration and evaluation recoveries (note 7)	**4,333,198**	86,079	**4,333,198**	10,003
Corporate asset expenditures	**-**	6,697	**-**	(11,332)
Restricted cash	**-**	(2,774,933)	**-**	4,286,940
Interest received	**168,312**	69,049	**219,296**	156,108
Cash flow from (used in) investing activities	**4,501,510**	(2,613,108)	**4,552,494**	4,441,719
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	**396**	(64,315)	**10,282**	(680,638)
Increase/(decrease) in cash and cash equivalents	**(411,951)**	(840,179)	**(968,836)**	3,471,128
Cash and cash equivalents, beginning of the period	**6,902,720**	8,255,844	**7,459,605**	3,944,537
Cash and cash equivalents, end of the period	**6,490,769**	7,415,665	**6,490,769**	7,415,665

See accompanying notes to the condensed consolidated interim financial statements

PetroFrontier Corp.

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 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 condensed consolidated interim financial statements of the Corporation as at and for the three and nine months ended September 30, 2014 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 has been an international oil and gas exploration company engaged in the exploration, acquisition and development of both conventional and unconventional petroleum assets in Australia's Southern Georgina Basin. The Corporation is now focusing its attention on identifying and evaluating a range of options which could include a recapitalization of the Corporation, a merger or other business combination of the Corporation with another entity or the sale of the Corporation as a whole. Included in the Corporation's ongoing evaluation are a number of new oil and gas exploration and development investment opportunities, all of which are still in the early stages of review.

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. Subsequent to September 30, 2014, the Corporation received an indication from Statoil that it would not be proceeding to Phase 2B of the Amended Farmin Agreement and as such the aggregated carrying value of the Corporation's exploration and evaluation assets exceeded the fair value less costs to sell. Accordingly, an impairment of $40,508,100 was recorded during the three and nine month ended September 30, 2014 (three and nine months ended September 30, 2013 – nil and $68,837,915, respectively).

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 September 30, 2014, the Corporation had working capital of $10,405,923 and a deficit of $121,256,942 and for the three and nine months ended September 30, 2014, cash outflows used in operating activities of $4,913,857 and $5,531,612 and a net loss of $41,172,637 and $42,249,705 (September 30, 2013 - $8,165,835, $78,480,779, $(1,839,341), $282,016, $1,483,345 and $57,654,047, 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 12.

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 28, 2014, 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 2013 annual consolidated financial statements.

As indicated in note 1 above, these condensed consolidated interim financial statements of the Corporation as at and for the three and nine months ended September 30, 2014 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, 2014, the Corporation adopted IAS 36, *Impairment of Assets*, which was amended in May 2013 to reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The amendments require retrospective application and were adopted by the Corporation on January 1, 2014. The adoption will only impact the Corporation's disclosures in the notes to the financial statements in periods when an impairment loss or impairment recovery is recognized. The application of the amendment had no impact on the consolidated statements of loss and comprehensive earnings/loss or the consolidated statement of financial position.

The Corporation will adopt IFRS 9, *Financial Instruments*. However, 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.

4. CASH AND CASH EQUIVALENTS

	September 30, 2014 ($)	December 31, 2013 ($)
Cash at bank and on hand	6,490,769	7,459,605
Cash and cash equivalents	**6,490,769**	**7,459,605**

5. ACCOUNTS RECEIVABLE

	September 30, 2014	December 31, 2013
Trade receivables	212,187	1,595,084
Accrued receivables	4,482,642	-
Accounts receivable	**4,694,829**	**1,595,084**

The majority of the accounts receivable as at September 30, 2014 related to accrued receivables pertaining to Research & Development tax incentives from the Australian Taxation Office totaling $4,333,198 ($4,449,718 Australian Dollars) plus accrued interest totaling $149,444 ($153,462 Australian Dollars), which were received subsequent to September 30, 2014.

6. IMPAIRMENT

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Impairment of goodwill	-	9,149,570
Impairment of exploration and evaluation assets	40,508,100	59,688,345
	40,508,100	**68,837,915**

The Corporation's exploration and evaluation assets at September 30, 2014 have been assessed for impairment. Subsequent to September 30, 2014, the Corporation received an indication from Statoil that it would not be proceeding to Phase 2B of the Amended Farmin Agreement and as such the aggregated carrying value of the Corporation's exploration and evaluation assets exceeded the fair value less costs to sell. Furthermore, the Corporation currently has no plans for further exploration on these properties and accordingly, an impairment of $40,508,100 was recorded during the three and nine months ended September 30, 2014 (three and nine months ended September 30, 2013 – nil and $68,837,915).

The Corporation's goodwill at September 30, 2013 was assessed for impairment. At that time, all of the Corporation's goodwill was 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, an impairment of $9,149,570 was recorded during the nine months ended September 30, 2013.

The Corporation's exploration and evaluation assets at September 30, 2013 were 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, an impairment of $59,688,345 was recorded during the nine months ended September 30, 2013.

7. EXPLORATION AND EVALUATION ASSETS

	Exploration & Evaluation Assets ($)
Cost:	
At December 31, 2013	103,051,218
Cumulative translation adjustments	1,129,092
Research & development tax incentives	(4,333,198)
At September 30, 2014	**99,847,112**
Accumulated impairment:	
At December 31, 2013	(59,339,012)
Impairment	(40,508,100)
At September 30, 2014	**(99,847,112)**
Accumulated depletion and depreciation:	
At December 31, 2013	-
Depletion and depreciation	-
At September 30, 2014	**-**
Net Book Value:	
At December 31, 2013	**43,712,206**
At September 30, 2014	**-**

Subsequent to September 30, 2014, the Corporation received Research & Development tax incentives from the Australian Taxation Office totaling $4,333,198 ($4,449,718 Australian Dollars). These Research & Development tax incentives have been treated as a reduction to exploration and evaluation assets.

Subsequent to September 30, 2014, the Corporation received an indication from Statoil that it would not be proceeding to Phase 2B of the Amended Farmin Agreement and as such the aggregated carrying value of the Corporation's exploration and evaluation assets exceeded the fair value less costs to sell. Furthermore, the Corporation currently has no plans for further exploration on these properties and accordingly, an impairment of $40,508,100 was recorded during the three and nine months ended September 30, 2014 (three and nine months ended September 30, 2013 – nil and $68,837,915).

During the three and nine months ended September 30, 2014 and 2013, no general and administrative expenses were capitalized.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2014 ($)	December 31, 2013 ($)
Trade payables	542,199	1,370,174
Accrued liabilities	281,575	281,463
	823,774	**1,651,637**

9. 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, 2014		Year Ended December 31, 2013	
	Number of shares	**Amount ($)**	**Number of shares**	**Amount ($)**
Common Shares				
Balance, beginning of year	79,600,768	125,952,046	79,400,768	125,916,046
Private placement (i)	-	-	200,000	36,000
Balance, end of period	**79,600,768**	**125,952,046**	**79,600,768**	**125,952,046**
Warrants				
Balance, beginning of year	15,384,615	1,220,886	15,384,615	1,220,886
Expiry of warrants	(15,384,615)	(1,220,886)	-	-
Balance, end of period	**-**	**-**	**15,384,615**	**1,220,886**

Issue of Common Shares

(i) In November 2013, the Corporation closed 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.

C) Warrants

During the three and nine months ended September 30, 2014, 15,384,615 warrants outstanding with strike prices of $0.90 per common share expired. Accordingly, $1,220,886 was reclassified from warrants to contributed surplus as at September 30, 2014.

D) 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, 2014:

	Number of options	Weighted average price ($)
Balance, December 31, 2013	7,634,167	1.03
Granted	-	-
Expired	(305,000)	0.58
Forfeited	(949,167)	2.00
Balance, September 30, 2014	**6,380,000**	**0.90**

The following table summarizes stock options outstanding and exercisable under the plan at September 30, 2014.

	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	3,800,000	4.1	$0.18	1,266,665	$0.18
$1.00	660,000	0.4	$1.00	660,000	$1.00
$1.99	500,000	2.3	$1.99	500,000	$1.99
$2.00	870,000	1.2	$2.00	870,000	$2.00
$3.05	550,000	1.7	$3.05	550,000	$3.05
	6,380,000	**3.0**	**$0.90**	**3,846,665**	**$1.38**

E) 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.

F) Per common share amounts

The basic weighted average number of common shares outstanding for the three and nine months ended September 30, 2014 were 79,600,768 (three and nine months ended September 30, 2013 – 79,400,768). As the Corporation has recorded a loss for the three and nine months ended September 30, 2014 and 2013, 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, 2014, nil and 3,800,000 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 (three and nine months ended September 30, 2013 – nil and 200,000).

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 12.

10. Supplemental Cash Flow Information

Changes in non-cash working capital:

	Three month ended September 30		**Nine month ended September 30**	
	2014	2013	**2014**	2013
	$	$	**$**	$
Accounts receivable	(4,469,785)	1,096,441	(3,099,745)	3,337,164
Prepaid expenses and deposits	11,584	554,732	3,735	508,377
Accounts payables and accrued liabilities	170,990	1,741,761	(827,863)	(536,957)
Other	92,782	(28,681)	70,895	174,379
Change in non-cash working capital	**(4,194,429)**	**3,364,253**	**(3,852,978)**	**3,482,963**

11. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The Corporation’s financial instruments recognized in the statement of financial position consist of cash and cash equivalents accounts receivable, accounts payable and accrued liabilities. The fair value of these financial instruments 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 income tax credits 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, 2014, the Corporation's cash and cash equivalents included $998,807 denominated in Australian dollars (September 30, 2013 – $7,173,915). A decrease or increase of one percent to the Australia / Canada foreign exchange rate would have decreased or increased the other comprehensive loss by $9,988 for the nine months ended September 30, 2014 (September 30, 2013 – $71,739). 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, 2014, 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 12.

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, 2014 there is no direct exposure to fluctuations in interest rates. As the Corporation is in the exploration stage, fluctuations in commodity prices bear no direct risk to the Corporation's revenue, however adverse fluctuations in interest rates, exchange rates and commodity prices may indirectly affect the Corporation's ability to obtain equity financing and future bank debt, if required, and on favorable terms.

12. COMMITMENTS AND CONTINGENCIES

EP 103, EP 104, EP 127 and EP 128

As of September 30, 2014, the Corporation had successfully satisfied all minimum work requirements associated with EP 103, EP 104, EP 127 and EP 128. 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. The Corporation currently has no plans for further exploration on these properties.

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.

As at September 30, 2014, the Corporation had the following material contracts and commitments:

	Total ($)	**2014 ($)**	**2015 ($)**	**2016 ($)**	**2017 ($)**
Leases	**164,798**	17,481	69,922	71,157	6,238

During the three and nine months ended September 30, 2014, the Corporation expensed $17,481 and $52,442 relating to operating leases it maintained throughout the periods (September 30, 2013 - $45,415 and $246,013).

13. SEGMENTED INFORMATION

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

	Three months ended September 30, 2014		Three months ended September 30, 2013	
	Canada ($)	**Australia ($)**	**Canada ($)**	**Australia ($)**
EXPENSES				
General and administrative	291,749	427,679	902,459	628,586
Loss/(gain) on marketable securities	38,340	-	(1,163)	-
Foreign exchange loss	-	-	(6,133)	
Share-based compensation (note 9)	75,081	-	24,147	-
Depreciation	-	-	210	2,191
Impairment	-	40,508,100	-	
Results from operating activities	405,170	40,935,779	919,520	630,777
Finance income	14,034	154,278	1,516	67,533
Finance costs	-	-	(272)	(1,825)
Net finance income	14,034	154,278	1,244	65,708
Net loss before taxes	(391,136)	(40,781,501)	(918,276)	(565,069)
Deferred tax recovery	-	-	-	-
NET LOSS	**(391,136)**	**(40,781,501)**	**(918,276)**	**(565,069)**
Exploration and evaluation assets (end of period)	-	-	-	44,171,490
Exploration and evaluation recoveries (note 7)	-	(4,333,198)	-	(86,079)
Total assets (end of period)	5,683,904	5,545,793	685,727	54,931,373
Total liabilities (end of period)	50,340	773,434	17,312	3,233,305

	Nine months ended September 30, 2014		Nine months ended September 30, 2013	
	Canada ($)	**Australia ($)**	**Canada ($)**	**Australia ($)**
EXPENSES				
General and administrative	1,054,997	623,917	1,742,201	2,012,019
Loss on marketable securities	55,235	-	1,442	-
Foreign exchange (gain)/loss	(280)	-	10,759	-
Share-based compensation (note 9)	227,032	-	237,514	-
Depreciation	-	-	594	29,493
Impairment	-	40,508,100	-	68,837,915
Results from operating activities	1,336,984	41,132,017	1,992,510	70,879,427
Finance income	39,755	179,541	6,749	149,359
Finance costs	-	-	(722)	(28,276)
Net finance income	39,755	179,541	6,027	121,083
Net loss before taxes	(1,297,229)	(40,952,476)	(1,986,483)	(70,758,344)
Deferred tax recovery	-	-	-	15,090,780
NET LOSS	**(1,297,229)**	**(40,952,476)**	**(1,986,483)**	**(55,667,564)**
Exploration and evaluation assets (end of period)	-	-	-	44,171,490
Exploration and evaluation recoveries (note 7)	-	(4,333,198)	-	(10,003)
Total assets (end of period)	5,683,904	5,545,793	685,727	54,931,373
Total liabilities (end of period)	50,340	773,434	17,312	3,233,305

14. SUBSEQUENT EVENTS

Subsequent to September 30, 2014, the Corporation received Research & Development tax incentives from the Australian Taxation Office totaling $4,333,198 ($4,449,718 Australian Dollars) plus accrued interest totaling $149,444 ($153,462 Australian Dollars).

Subsequent to September 30, 2014, the Corporation received an indication from Statoil that it would not be proceeding to Phase 2B of the Amended Farmin Agreement. The Corporation anticipates formal notice from Statoil imminently.

Subsequent to September 30, 2014, Macquarie Capital Markets Canada Ltd. (“Macquarie”) filed a Statement of Defence and Counterclaim against PetroFrontier in response to the previously announced Statement of Claim filed by PetroFrontier against Macquarie in the Court of Queen’s Bench of Alberta.

NOTES *(continued)*

PetroFrontier will vigorously proceed with its lawsuit against Macquarie and its defence of the Counterclaim.

NOTES *(continued)*

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Chairman of the Board of Directors
Calgary, Alberta

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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
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Michael Hibberd
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President and Chief Executive Officer

Shane J. Kozak
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