PetroFrontier

Management's Discussion & Analysis
for the years ended
December 31, 2011 and 2010

MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A")

PetroFrontier Corp.
December 31, 2011

PetroFrontier Corp. (the "Corporation") is a public company engaged in the business of international petroleum exploration in Northern Territory, Australia with a fiscal year end of December 31.

This Management's Discussion & Analysis ("MD&A") is a review of how the Corporation performed during the period covered by the financial statements, and of the Corporation's financial condition and future prospects. The MD&A complements and supplements the financial statements of the Corporation, and should be read in conjunction with the accompanying financial statements and the related notes for the years ended December 31, 2011 and 2010 of the Corporation. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") in Canadian dollars, which are also generally accepted accounting principles ("GAAP") for publically accountable enterprises in Canada. For all periods up to and including the year ended December 31, 2010, we prepared our Financial Statements in accordance with Canadian generally accepted accounting principles ("GAAP"). In accordance with the standard related to the first time adoption of IFRS, our transition date to IFRS was January 1, 2010 and therefore the comparative information for 2010 has been prepared in accordance with our IFRS accounting policies. The 2009 financial information contained within this MD&A has been prepared following previous Canadian GAAP and, as allowed by the standard related to the first time adoption of IFRS ("IFRS 1"), has not been re-presented on an IFRS basis. The Corporation's Audit Committee has reviewed and approved the financial statements and MD&A. This MD&A is effective April 30, 2012.

Forward-Looking Statements

Certain statements contained in this document, including Management's assessment of the Corporation's future plans and operations, may constitute forward-looking statements. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "plan" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Corporation, or industry results, to differ materially from those expressed or implied by such forward-looking statements. The Corporation believes the expectations reflected in these forward-looking statements are based on reasonable assumptions but no assurance can be given that these expectations will prove to be correct and the forward-looking statements included in this document should not be unduly relied upon. These statements speak only as of the date of this document.

Corporate Overview

Australia Energy Corp. ("AEC") was incorporated on February 6, 2009. AEC amalgamated with Pendulum Capital Corporation ("Pendulum") on December 31, 2010 to form the Corporation. The Corporation is engaged in the business of international petroleum exploration in Australia, through its two wholly owned Australian subsidiaries, PetroFrontier (Australia) Pty Ltd (formerly called Georgina Basin Energy Pty Ltd) and Texalta (Australia) Pty Ltd (collectively "PetroFrontier (Australia)"). When used herein, the term "Corporation" also refers to PetroFrontier (Australia) on a consolidated basis.

The common shares of the Corporation began trading on the TSX Venture Exchange on January 13, 2011, under the trading symbol "PFC".

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PetroFrontier Corp.
December 31, 2011

Summary of Corporate Transactions

2009

On February 26, 2009, Rodinia Oil Corp. ("Rodinia") and Odin Capital Corp. ("Odin") divested all of their interests in a farmout agreement (the "Texalta Farmout Agreement") with Texalta Petroleum Ltd. ("Texalta") to the Corporation. The Texalta Farmout Agreement was initially signed on December 21, 2007 between Rodinia, Odin and Texalta. Upon the transfer of all of Rodinia's and Odin's rights, title and interest in the Texalta Farmout Agreement to the Corporation, the Corporation acquired the right to earn a 50% interest in Exploration Permits 103 and 104 in the southern Georgina Basin in Northern Territory, Australia. EP 103 and EP 104 (comprising of approximately 5.7 million acres of exploratory lands) was then operated by Texalta.

2010

In conjunction with this transfer, on February 27, 2010 the Corporation closed a private placement by issuing 3,456,800 class "A" common shares for total proceeds of $864,200 ($845,470 net of issue costs).

Pursuant to the terms of the sale agreements between each of Rodinia, Odin and the Corporation, Rodinia and Odin each received 2,000,000 class "A" common shares of the Corporation. The Corporation and Rodinia share five common directors as well as executive management.

On April 1, 2010, the Corporation entered into two farmin agreements (the "Baraka Farmin Agreements") with Baraka Energy and Resources Limited (formerly known as Baraka Petroleum Limited) ("Baraka"), pursuant to which the Corporation earned a 50% working interest in 7.8 million gross undeveloped acres (3.9 million net) in EP 127 and EP 128 in the Northern Territory, Australia. These exploration permits offset EP 103 and EP 104 to the north, west and south in the Southern Georgina Basin, Australia. The Corporation is the operator under the Baraka Farmin Agreements.

On August 6, 2010, AEC entered into a letter agreement with Pendulum, pursuant to which the parties planned to complete a business combination (the "Transaction") by way of an amalgamation. On October 6, 2010, AEC entered into a formal amalgamation agreement with Pendulum, pursuant to which Pendulum amalgamated with AEC under the *Business Corporations Act* (Alberta) on December 31, 2010 to form the Corporation. The Transaction constituted the qualifying transaction of Pendulum pursuant to Policy 2.4 of the TSX Venture Exchange Inc. (the "TSX Venture") Corporate Finance Manual.

Effective October 7, 2010, the Corporation and Northern Territory Oil Pty Ltd ("NTO") entered into a purchase and sale agreement ("NTO Agreement"), whereby the Corporation agreed to purchase NTO's entire 25% working interest in EP 127 and EP 128, which encompass approximately 7.8 million gross acres of exploratory lands. Under the terms of the NTO Agreement, the Corporation agreed to pay NTO the sum of $2.0 million CDN ($1.0 million by the payment of cash and $1.0 million by the issuance of common shares from treasury). The NTO Agreement closed on December 31, 2010 and the Corporation's working interest in EP 127 and EP 128 increased from 50% to 75%.

On December 8, 2010, the Corporation closed a brokered private placement for gross proceeds of $53,000,000 by issuing 26,500,000 subscription receipts of the Corporation at $2.00 per subscription receipt. The subscription receipts were automatically converted to common shares of the Corporation at no additional consideration, upon amalgamation with Pendulum.

On December 22 and 29, 2010, the Corporation closed two non-brokered private placements for gross proceeds of $4,546,500 and $953,500 by issuing 2,273,250 and 476,750 common shares respectively of the Corporation at $2.00 per common share.

2011

On March 21, 2011, the Corporation and Texalta entered into an Arrangement Agreement (the “Arrangement Agreement”) to complete a business combination (the “Transaction”) pursuant to which the Corporation subsequently acquired all of the outstanding shares of Texalta.

On May 31, 2011, the Corporation closed the acquisition of Texalta by way of a plan of arrangement (the “Transaction”) pursuant to the provisions of the Business Corporations Act (Alberta). Pursuant to the transaction, the Corporation issued a total of 15,444,732 common shares of the Corporation at a fair value of $3.05 per common share and paid $10,000,000 in cash consideration on a pro rata basis for the acquisition of all of the issued and outstanding Class A common shares of Texalta. The Corporation also issued a total of 222,457 common shares of the Corporation at a fair value of $3.05 per common share to holders of Texalta options in exchange for the cancellation of such options. The 1,500,000 outstanding Texalta warrants were continued/replaced with 675,000 warrants of the Corporation at an exercise price of $2.00 per common share with the warrants otherwise being continued on the same terms and conditions.

In addition, the Corporation acquired approximately 115 bbls/d of high netback, light oil production at Wordsworth and Queensdale in southeast Saskatchewan, as well as exploration properties at Carlyle, Saskatchewan and Joarcam, Alberta.

On August 1, 2011 and September 8, 2011, the Corporation disposed of these Canadian petroleum and natural gas properties to two different arm's length private companies, for a cash purchase price of $50,000 and $6,760,000 respectively and as a result has been accounted for as discontinued operations.

The Transaction and subsequent dispositions consolidated the ownership of exploration permits EP 103 and 104 increasing the Corporation’s working interest in these key operational blocks to 100% from 50% and allows the Corporation to focus on its core exploration program in the Northern Territories, Australia.

2011 Overview

As at December 31, 2011, the Corporation had a working capital surplus of $22,663,020 with no debt. The exploration and evaluation asset expenditures incurred during the year ended December 31, 2011 totaled $26,630,986 and related primarily to drilling expenditures, associated infrastructure expenditures to support the drilling operations and seismic acquisition costs in the Georgina Basin.

The Corporation is extremely proud of it’s accomplishments to date, all of which point to the upside potential of the Corporation’s assets. Since inception, the Corporation has been utilizing world-class modern geoscience techniques to reprocess old and new geophysical data to enhance the view of the subsurface geology. Existing core and chip sample information are also being re-assessed to increase the

Corporation's understanding of the potential within these key target reservoirs. In addition, over 1,200 kilometres of new 2-D seismic have been added in Exploration Permit ("EP") 103 and EP 104, which follows the Corporation's long-term strategy of continuing to evaluate the extent of the Lower Arthur Creek "Hot Shale" play within its existing land base.

The Corporation's drilling program commenced in August 2011, encompassing two wells to test important targets, all with promising results. The Corporation was the first to introduce proven North American horizontal drilling technologies to the Northern Territories, Australia with the successful horizontal drilling at Baldwin-2Hst1 on EP 103 in the Southern Georgina Basin. Baldwin-2Hst1 reached a total measured depth of 1,948 metres on October 11, 2011. Positive hydrocarbon indications were recorded along the entire length of the horizontal section of Baldwin-2Hst1, with elevated gas readings and evidence of heavier hydrocarbons present.

On November 21, 2011, the Corporation announced that the second exploratory well, MacInctyre-2, was drilled as a high angle pilot hole through the Lower Arthur Creek "Hot Shale" formation and into the Thorntonian carbonate formation to a vertical measured depth of 930 metres. MacIntyre-2 is located in the northeastern corner of EP 127 in the Southern Georgina Basin approximately 60 km northwest of the Corporation's first location, Baldwin-2Hst1. Elevated hydrocarbon shows were also recorded throughout the "Hot Shale" formation with sustained and peak levels generally two to three times greater than those seen in the vertical pilot hole at Baldwin-2Hst1. There was evidence of oil and effervescing gas (up to C_5 pentane) in the samples. Logging results are very positive showing approximately 22 metres of true vertical depth pay with porosities varying between 5-11%. Studies completed by two independent petrophysical companies indicate that the Lower Arthur Creek "Hot Shale" zone in MacIntyre-2 may be oil bearing, although natural gas is present as well.

Weather and access to service equipment proved to be the greatest challenges throughout 2011. The drilling program experienced lengthy delays in the first and second quarters due to heavy rains. Once the Corporation was actively drilling, the onset of the annual Northern Territory wet season in early November forced the demobilization of all operations and the horizontal portion of the MacIntyre-2 well was not completed. The Baldwin-2Hst1 well was suspended in October pending full completion of the MacIntyre-2 location as per the original program which is now scheduled for mid 2012. Once MacIntyre-2H is drilled, the Corporation will earn a 75% working interest in EP 127 and will continue on as the operator.

Based on positive results from these operational developments, management continues to believe that the unconventional Lower Arthur Creek "Hot Shale" is geologically and mechanically analogous to major unconventional oil plays in North America such as the Bakken and Eagleford.

Subsequent Events

On January 16, 2012, the Corporation announced that it had retained Macquarie Capital Markets Canada Ltd. as its exclusive advisor to assist the Corporation in seeking a suitable joint venture partner to participate with the Corporation in the exploration and development of the Corporation's extensive unconventional and conventional exploration acreage.

On January 24, 2012, the Corporation announced that it had contracted Rig #918 with Ensign Australia Pty Ltd, a subsidiary of Ensign International Energy Services for the drilling of two wells in the Southern Georgina Basin.

On February 1, 2012, the Corporation announced that it had appointed Earl Scott as Chief Operating Officer of the Corporation and President of the Corporation's two wholly-owned subsidiaries. In conjunction with Mr. Scott's appointment, the Corporation granted him options to purchase 500,000 common shares at a price of $1.99 per share. Mr. Scott brings extensive knowledge of drilling, completions, production operations, project management and facilities through his 25 years of experience in the oil and gas industry. Mr. Scott has re-located to the Corporation's operations office in Adelaide, South Australia.

On March 5, 2012, the Corporation announced that it had been awarded two exploration permit applications in the western part of the Southern Georgina Basin totalling approximately 939,000 acres.

Outlook

Subsequent to the recently awarded exploration permits in March 2012, the Corporation's land position has increased to 14.1 million acres and covers more than half of the Southern Georgina Basin with a net 87% operated working interest.

The Corporation completed 2011 field operations in late November and has been actively preparing for the upcoming 2012 exploration program scheduled for mid 2012.

Onshore Australia is under-explored because of its vast and remote deserts and oil and gas exploration comes at a high cost due to the limited access to infrastructure, equipment and services. Management is experienced with frontier exploration and highly cognizant of the need to manage capital expenditures in order to pursue significant upside potential for all stakeholders.

The Corporation is currently in the planning stage of the next phase of its capital program. This phase will focus on mobilizing Ensign Rig #918 into the Southern Georgina Basin to complete the horizontal leg at MacIntyre-2 in EP 127 and to begin drilling a high angle pilot hole and if the Corporation has sufficient capital, a subsequent horizontal well at the third location, Owen-3 in EP 104. Subsequent to this drilling activity a service rig will be mobilized for the completion, frac'ing and flow testing of Baldwin-2Hst1 (EP 103), MacIntyre-2H (EP 127) and Owen-3H (EP 104).

At the date of this MD&A, the current operator of Ensign Rig #918 had not yet released the rig from their operations in the Cooper Basin. Once that operator's program is completed the rig will be mobilized to the Southern Georgina Basin and the Corporation will be able to commence its 2012 exploration drilling program.

With substantial mobilization costs the Corporation's strategy is to mobilize the frac'ing equipment once the drilling of the Owen-3 well is near completion. These unconventional oil plays require the use of advanced horizontal drilling and completion techniques to be economic. The Corporation intends to conduct the fracture stimulation program at Baldwin-2Hst1 (EP 103) and MacIntyre-2H (EP 127) and if the Corporation has sufficient capital, the Owen-3H (EP 104) well will also be fracture stimulated. The use of these proven North American technologies is expected to give the Corporation every chance of establishing commercial production.

The Corporation is extremely encouraged by its results to date from the first two wells, Baldwin-2Hst1 and MacIntyre-2, which strongly support the Corporation's long-term strategy of continuing to evaluate the extent of the Lower Arthur Creek "Hot Shale" play within its existing land base. It is a particularly positive sign that there are now two wells within 60 km of each other that have shown very encouraging hydrocarbon indications in the Lower Arthur Creek "Hot Shale". Definitive results will be confirmed once the Corporation can complete, frac and flow these wells in 2012.

Overview of Consolidated Financial Results

The following selected financial data is derived from the unaudited and audited consolidated financial statements of the Corporation and reference should be made to such unaudited and audited financial statements.

	Q1 2011	**Q2 2011**	**Q3 2011**	**Q4 2011**
Net loss	1,700,127	2,906,028	2,041,095	1,687,928
Per common share (basic and diluted)	0.04	0.05	0.03	0.03
Positive/(negative) cash flow from operations	(1,463,245)	(703,870)	(926,003)	1,687,036
Working capital	52,933,143	38,405,486	34,941,213	22,663,020
Total assets	65,927,920	133,538,771	134,200,160	134,498,673
Shareholders' equity	64,168,552	112,903,757	111,778,047	111,384,110

	Q1 2010	**Q2 2010**	**Q3 2010**	**Q4 2010**
Net loss	330,391	459,221	396,527	4,020,043
Per common share (basic and diluted)	0.03	0.03	0.02	0.16
Positive/(negative) cash flow from operations	(307,542)	(266,186)	148,077	(836,456)
Working capital	7,921,011	7,488,381	5,260,957	55,001,333
Total assets	10,110,426	9,736,861	10,383,324	67,981,817
Shareholders' equity	10,076,423	9,669,809	9,516,390	65,217,309

Cash and cash equivalents

As at December 31, 2011, cash and cash equivalents totaled $24,358,559 as compared to $55,710,522 as at December 31, 2010, respectively. The decrease in cash and cash equivalents and term deposits relates primarily to general and administrative, corporate acquisition costs, drilling expenditures, associated infrastructure expenditures to support the drilling operations and seismic acquisition costs. The source of the Corporation's funds as at December 31, 2010 and December 31, 2011 was from the private placement financings that closed in December 2010 for gross proceeds of $58,500,000. The following table summarizes the Corporation's cash and cash equivalents:

	December 31, 2011	December 31, 2010	January 1, 2010
Cash at bank and on hand	**11,774,340**	55,710,822	8,279,000
Short-term deposits	**12,584,219**	-	-
Cash and cash equivalents	**24,358,559**	55,710,822	8,279,000

Term deposits

As at December 31, 2011, term deposits totaled $2,500,000 as compared to nil as at December 31, 2010, respectively. The following table summarizes the Corporation's term deposits:

	December 31, 2011
Term Deposits ($)	**2,500,000**
Effective interest rate (%) on term deposits	**1.45**
Average number of days to maturity for term deposits	**270**

Restricted cash

Restricted cash was nil and $58,467 as at December 31, 2011 and December 31, 2010, respectively. On June 15, 2010, the Corporation deposited $1,500,000 (Australian dollars) into its lawyers' trust account as evidence that it has the financial capacity to complete its obligations under the Baraka Farmin Agreements. The balance recorded at December 31, 2010 was the remainder of the funds that were held in trust under the Baraka Farmin Agreements and during the second quarter of 2011 the remainder of the funds were returned to the Corporation.

Marketable Securities

Through the acquisition of Texalta the Corporation acquired 1,217,429 common shares of Hearth Heat Resources Ltd, a publically traded company listed on the Australian Securities Exchange. The Corporation recorded a mark to market loss of $7,935 for the year ended December 31, 2011 on this marketable security.

Financial Instruments

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.

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, 2011 the Corporation recorded a gain on financial instruments of $221,966. As at December 31, 2011, the Corporation had a total of 2 forward foreign currency exchange rate contracts with the following terms:

AUD bought ($)	**CAD sold ($)**	**Average Rate (%)**	**Date of Maturity**	**Mark to Market Fair Value**
1,250,000	1,258,375	100.670	January 18, 2012	(40,198)

Accounts Receivable

Accounts receivable decreased from $1,675,441 at December 31, 2010 to $1,400,005 at December 31, 2011. The accounts receivable balance at December 31, 2011 and December 31, 2010 relate primarily to Australian investment tax credits on the Corporation's qualifying expenditures, which are typically received in the subsequent quarter. The following tables summarize the Corporation's accounts receivable:

	December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	**1,400,005**	730,140	10,919
Joint venture receivables	**-**	945,301	-
Allowance for doubtful accounts	**-**	-	-
Accounts receivable	**1,400,005**	1,675,441	10,919

Prepaid Expenses and Deposits

Prepaid expenses and deposits increased from $321,411 at December 31, 2010 to $666,998 at December 31, 2011. The balance recorded in prepaid expenses relates to $500,000 (Australian dollars) worth of deposits that were paid to the Northern Territory Government of Australia in conjunction with the Corporation's seismic acquisition programs in EP 103 and EP 104 and drilling operations in EP 103 and EP 127 in the Georgina Basin. In addition, $100,000 (Australian) was paid as a deposit in conjunction with the Baraka Farmin Agreements that will be returned to the Corporation upon satisfaction of the Farmin commitments. The remainder of the prepaid expenses and deposits balance relates to prepaid insurance and rent.

Exploration and Evaluation Assets

Exploration and evaluation assets at December 31, 2010 totaled $10,213,926 as compared to $96,454,822 at December 31, 2011. Exploration and evaluation asset expenditures incurred during the year ended December 31, 2011 totaled $26,630,986 and related primarily to drilling expenditures, associated infrastructure expenditures to support the drilling operations and seismic acquisition costs in the Georgina Basin. In addition, the Corporation closed the Texalta acquisition during the second quarter of 2011 resulting in an increase to exploration and evaluation assets of $59,009,550.

Acquisitions

Effective December 31, 2010, Pendulum acquired all of the issued and outstanding shares of AEC. As consideration, Pendulum issued 47,146,801 common shares on the basis of one Pendulum share for every one AEC share. Although the legal parent in the acquisition is Pendulum, the transaction under securities regulations and for accounting purposes deemed control to pass to the legal subsidiary, AEC, and accordingly, reverse takeover accounting applied.

The transaction was accounted for by the purchase method based on fair values as follows:

	$
Net assets acquired:	
Cash	280,826
Other net working capital	7,502
	288,328
Consideration:	
Common shares	1,166,666
Listing expense	(878,338)
	288,328

On May 31, 2011, the Corporation acquired all of the issued and outstanding shares of Texalta Petroleum Ltd. ("Texalta"), a TSX Venture listed company with large resource potential for oil in the Arthur Creek Shale in the Georgina Basin, Northern Territory, Australia and oil assets focused in Saskatchewan, pursuant to a Plan of Arrangement under the *Business Corporations Act* (Alberta) (the "Texalta Arrangement").

The purchase price paid by the Corporation for all of Texalta's shares pursuant to the Texalta Arrangement was a total of 15,667,189 common shares of the Corporation, 675,000 warrants of the Corporation and $10 million in cash. The common shares issued were valued using the share price of the Corporation on May 31, 2011. The warrants issued were valued using the Black-Scholes pricing model.

The goodwill recognized on acquisition is attributed to the strategic benefit that a large potential resource play for oil in the Arthur Creek Shale formation is expected to bring and attribute to expected future cash flows generated from the ability to unlock large resource potential through continued improvements in technology. None of the goodwill recognized is expected to be deductible for income tax purposes. The consolidated statement of comprehensive loss includes the results of operations for the period following the close of the transaction on May 31, 2011. These amounts have not been disclosed separately below as it is impracticable to do so as operations were consolidated on the acquisition date.

The Texalta Arrangement has been accounted for as a business combination using the acquisition method whereby the net assets acquired and the liabilities assumed are recorded at fair value. The following table summarizes the net assets acquired pursuant to the acquisition:

Fair value of net assets acquired	
Exploration and evaluation assets	59,009,550
Property, plant and equipment	7,146,967
Goodwill	9,773,469
Working capital	510,705
Decommissioning liabilities	(445,467)
Deferred tax liability	(17,137,048)
Total net assets acquired	**58,858,176**

Consideration	
Common shares issued	47,784,926
Warrants issued	1,073,250
Cash	10,000,000
Total purchase price	**58,858,176**

For the year ended December 31, 2011, the Corporation incurred $1,173,087 of expenses related to the acquisition of Texalta. Corporate acquisition costs are expensed as incurred and are not part of the consideration transferred on completion of the acquisition.

Discontinued Operations

On August 1, 2011, the Corporation disposed of certain non-core Canadian petroleum and natural gas properties located at Alameda, to an arm's length private company, for a cash purchase price of $50,000

On September 8, 2011, the Corporation disposed of its non-core Canadian petroleum and natural gas properties located at Wordsworth and Queensdale in Southeast Saskatchewan, as well as exploration properties at Carlyle, Saskatchewan and Joarcam, Alberta, to an arm's length private company for a cash purchase price of $6,760,000. This disposition represented the sale of all of the Corporation's remaining Canadian petroleum and natural gas properties acquired pursuant to its plan of arrangement with Texalta Petroleum Ltd. that closed on May 31, 2011 and as a result this disposition has been accounted for as a discontinued operation. This disposition will allow the Corporation to focus its resources on its core exploration program in the Northern Territories, Australia.

The following is a summary of the discontinued operations:

	Year Ended December 31, 2011
Revenue	
Oil and natural gas sales	**916,190**
Crown and other royalties	**(146,150)**
	770,040
Operating	**167,796**
Depletion, depreciation and accretion	**665,644**
Derecognition of goodwill	**768,599**
Gain on disposition of discontinued assets	**(873,373)**
	(728,666)
Net earnings from discontinued operations	**41,374**

Goodwill

During the year ended December 31, 2011, the Corporation recorded goodwill of $9,773,469 as part of the acquisition of Texalta. The goodwill recognized on this acquisition was attributed to the strategic benefit that a large potential resource play for oil in the Arthur Creek Shale formation is expected to bring and attribute to expected future cash flows generated from the ability to unlock large resource potential through continued improvements in technology. None of the goodwill recognized is expected to be deductible for income tax purposes.

As part of the Corporation's disposition of all of its Canadian petroleum and natural gas properties discussed above, goodwill was reduced by $768,599, which represented the amount of goodwill allocated to these assets upon acquisition pursuant to the Corporation's plan of arrangement with Texalta Petroleum Ltd. that closed on May 31, 2011.

Goodwill was assessed for impairment as at December 31, 2011. The recoverable amounts used to assess goodwill were determined using fair value less costs to sell. As at December 31, 2011 the fair value less costs to sell exceeded the aggregated carrying value of the goodwill. Accordingly, no impairment was recorded.

The following table summarizes the Corporation's goodwill:

	December 31, 2011	December 31, 2010
	($)	($)
Cost:		
Balance, January 1	-	-
Additions	9,773,469	-
Dispositions	(768,599)	
Foreign currency translation	(58,639)	-
Balance, December 31	**8,946,231**	**-**
Accumulated impairment losses:		
At January 1	-	-
Impairment losses recognized in the year	-	-
Balance, December 31	**-**	**-**
Net book value at December 31	**8,946,231**	**-**

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at December 31, 2010 totaled $2,764,508 as compared to $6,256,024 at December 31, 2011. The increase in accounts payable at the end of the current year was due to the Corporation's activity levels relating to drilling and seismic operations. The following tables summarize the Corporation's accounts payable and accrued liabilities:

	December 31, 2011	December 31, 2010	January 1, 2010
Accrued liabilities	**3,566,428**	469,753	46,738
Trade payables	**2,689,596**	2,294,755	31,609
	6,256,024	2,764,508	78,347

Decommissioning Liabilities

Decommissioning liabilities at December 31, 2010 totaled nil as compared to $596,680 at December 31, 2011. As at December 31, 2011, $96,000 of the $596,680 recorded as decommissioning liabilities was classified as current as the Corporation expects to incur these expenditures in the following year. The increase in decommissioning liabilities at the end of the current year was due to the Corporation's drilling and seismic operations in Australia resulting in future reclamation and abandonment costs required to be included on the balance sheet as future asset retirement obligations. The Corporation used discount rates ranging from 4.7% - 5.2% to account for its decommissioning liabilities.

Deferred Tax Liability

During the year ended December 31, 2011, the Corporation recorded a $17,137,048 deferred tax liability as part of the acquisition of Texalta. The Corporation recognized a $768,599 deferred tax recovery for the year ended December 31, 2011 due to recognizing previously unrecorded deferred tax assets, which were realized during the current year as part of the discontinued operations.

The following is a summary of the Corporation's deferred tax liability as at December 31, 2011 and 2010:

	2011		2010	
Deferred income tax assets / (liabilities)	**Australia**	**Canada**	Australia	Canada
	($)	**($)**	($)	($)
Non-capital loss	**13,109,455**	**439,423**	3,070,982	675,692
Share issue costs	**-**	**660,213**	-	805,103
Acquisitions	**(16,368,449)**	**-**	-	-
Exploration and evaluation assets and corporate assets	**-**	**165,002**	(2,823,982)	-
Foreign exchange	**106,590**	**-**		
Unrecognized deferred tax assets	**(13,109,455)**	**(1,264,638)**	(247,000)	(1,480,795)
Total	**(16,261,859)**	**-**	-	-

The Corporation has temporary differences associated with its investments in foreign subsidiaries. As at December 31, 2011, the Corporation recorded a deferred tax liability of $16,261,859 in respect of these temporary differences.

The Corporation has non-capital losses as at December 31, 2011 of approximately $42.8 million (2010 - $10.2 million) in Australia which have no expiry and $1.8 million (2010 - $2.7 million) in Canada which expire between 2030 and 2031. The Corporation has share issue costs of approximately $2.6 million (2010 - $3.2 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.

General and Administrative Expense

General and administrative ("G&A") expense for the year ended December 31, 2011 totaled $3,851,616 as compared to $2,425,504 for the year ended December 31, 2010. The increase in general and administrative expense over the prior year relates to increased staffing levels to facilitate the Corporation's operations, increased office supplies and rent associated with the higher staffing levels and higher travel, accommodations, corporate reporting and professional fees associated with the Corporation now being a publically traded entity. The following tables summarize the Corporation's general and administrative expenses:

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

	Year ended December 31	
	2011	**2010**
Salaries and benefits	**2,350,276**	882,409
Office costs	**599,655**	1,260,979
Professional fees	**426,205**	136,897
Corporate and regulatory	**539,730**	141,638
Other	**19,005**	3,581
Overhead recoveries	**(83,255)**	-
	3,851,616	2,425,504

Foreign Exchange Gain

The Corporation recorded a foreign exchange gain of $124,874 for the year ended December 31, 2011. The gain pertains almost entirely to Australian dollar cash that was held by the parent Corporation throughout the year.

Share-Based Compensation

Share-based compensation expense for the year ended December 31, 2011 totaled $4,902,076 as compared to $1,993,107 for the year ended December 31, 2010. The substantial increase in share-based compensation expense pertains to the fact that 5,396,668 stock options were outstanding at December 31, 2011 as compared to 4,040,000 at December 31, 2010 and due to a higher fair value per option on the more recently granted options in comparison to the options outstanding at December 31, 2010.

Depreciation

Depreciation expense for the year ended December 31, 2011 totaled $25,651 as compared to $513 for the year ended December 31, 2010. Overall, depreciation expense for the years ended December 31, 2011 and 2010 were as expected by management and the majority of the increase relates to depreciation of field vehicles and additional office equipment acquired during 2011.

Corporate Acquisition Costs

Corporate acquisition costs incurred for the year ended December 31, 2011 totaled $1,173,087. All of these costs related to the acquisition of Texalta, which closed on May 31, 2011.

Finance income

Finance income for the year ended December 31, 2011 totaled $491,399 as compared to $99,881 for the year ended December 31, 2010. Overall, the finance income for the years ended December 31, 2011 and 2010 were as expected by management given the levels of cash on hand during the respective years.

Finance costs

Finance costs for the year ended December 31, 2011 totaled $23,025 as compared to $8,601 for the year ended December 31, 2010. Overall, the finance costs for the comparable years were as expected by management given the levels of banking activity. Also included in the current year total is accretion expense of $9,647, relating to the Corporation's drilling and seismic operations in Australia resulting in future reclamation costs required to be included on the balance sheet as future decommissioning liabilities.

Net Loss

The Corporation recorded a net loss for the year ended December 31, 2011 of $8,335,178 as compared to a net loss of $5,206,182 for the year ended December 31, 2010. As the Corporation is in the exploration phase, there is currently no oil and natural gas producing properties from which to generate revenues. The Corporation's net loss for the period was generated primarily from share-based compensation expense (non-cash) and G&A expenses including salaries, office costs, and travel costs. The net loss per share (basic and diluted) for the year ended December 31, 2011 was $0.15 per share as compared to $0.28 per share for the year ended December 31, 2010.

Comprehensive Loss

The Corporation recorded a comprehensive loss for the year ended December 31, 2011 of $8,381,196 as compared to $4,702,644 for the year ended December 31, 2010. The difference between net loss from operations and comprehensive loss is comprised entirely of other comprehensive income relating to the revaluation of the Corporation's assets and liabilities in accordance with the Corporation's accounting policy on foreign exchange gains and losses. During the year ended December 31, 2011, the Australian dollar relative to the Canadian dollar strengthened from CAD $1.02 at December 31, 2010 to CAD $1.04 at December 31, 2011 resulting in a gain on the conversion of the Corporation's Australian assets net of the loss incurred on the conversion of the Corporation's Australian liabilities. Similarly, for the year ended December 31, 2010, the Australian dollar relative to the Canadian dollar strengthened from CAD $0.94 at December 31, 2009 to CAD $1.02 at December 31, 2010 resulting in a gain on the conversion of the Corporation's Australian assets net of the loss incurred on the conversion of the Corporation's Australian liabilities. However, during the year ended December 31, 2011 the Corporation recorded a comprehensive loss, which can mostly be attributed to the acquisition of Texalta. At the time the Texalta acquisition closed, the Australian dollar relative to the Canadian dollar was trading at an even stronger level than it was at December 31, 2011, resulting in a loss on the revaluation of those particular Australian assets at year end, which more than offset the remainder of the Corporation's gains.

Common share information

Weighted average outstanding common shares

	Year ended December 31, 2011	Year ended December 31, 2010
Basic and diluted[1]	**57,174,380**	**18,592,270**

[1] *As the Corporation has losses for all periods referenced above, 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.*

Liquidity and capital resources

The diluted numbers of common shares outstanding at December 31, 2011 and 2010 were as follows:

	December 31, 2011	December 31, 2010
Common shares	63,998,153	47,730,134
Warrants	675,000	-
Options	5,396,668	4,040,000
Total common shares (diluted)	**70,069,821**	**51,770,134**

As at December 31, 2011 the Corporation had $26,858,559 in cash and cash equivalents and term deposits. The source of the Corporation's net working capital of $22,663,020 is a result of the private placement funds received in December 2010. The Corporation's exploration and evaluation expenditures for the year of $26,630,986 consisted primarily of the Corporation's drilling and seismic acquisition programs in the Georgina Basin in addition to the acquisition of Texalta offset by the disposal of property, plant and equipment from discontinued operations.

With current working capital on hand, the Corporation has adequate funding to provide for general operations for a period of at least 12 months.

The Corporation has 5,396,668 stock options and 675,000 warrants issued and outstanding as at December 31, 2011 at strike prices ranging from $0.25 to $3.60 and could potentially yield $12,473,985 of total proceeds. If all of these instruments are exercised it would result in an additional 6,071,668 common shares being issued, which represents dilution of 9.5% in comparison to the shares issued and outstanding as at December 31, 2011.

Financial Instruments and Other Instruments

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, 2011 the Corporation recorded a gain on financial instruments of $221,966. As at December 31, 2011, the Corporation had a total of 2 forward foreign currency exchange rate contracts with the following terms:

AUD bought ($)	CAD sold ($)	Average Rate (%)	Date of Maturity	Mark to Market Fair Value
1,250,000	1,258,375	100.670	January 18, 2012	(40,198)

Material Contracts, 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/cost estimates as at December 31, 2011
Year 4	May 21, 2011	May 20, 2012	Drill one exploration well	Completed
Year 5	May 21, 2012	May 20, 2013	Drill one exploration well	Outstanding

EP 104 Minimum Work Plan Commitment

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

Year	Start	End	Minimum work requirements	Status/cost estimates as at December 31, 2011
Year 4	May 21, 2011	May 20, 2012	Drill one exploration well	Outstanding
Year 5	May 21, 2012	May 20, 2013	Drill one exploration well	Outstanding

The Corporation has requested a four month extension of its Year 4 minimum work commitments for EP 104 with the government of the Northern Territory, Australia. The Corporation's management has received positive feedback from the regulator and is confident it will be granted the extension due to the fact it has committed and incurred capital expenditures on EP 103, EP 104 and EP 127 that substantially exceed the government's minimum requirements. There can be no assurance that the steps management is taking will be successful.

Baraka Farmin Agreements

On April 1, 2010, the Corporation entered into the "Baraka Farmin Agreements", pursuant to which the Corporation earned a 50% working interest in 7.8 million gross undeveloped acres before royalties (3.9 million net) in EP 127 and EP 128 in the Northern Territory, Australia. These exploration permits offset the Corporation's EP 103 and EP 104 to the north, west and south in the Southern Georgina Basin. The Corporation will be the Operator under the Baraka Farmin Agreements.

Under the terms of the Baraka Farmin Agreements, the Corporation is required to:

i) meet the minimum (governmental) work commitments on EP127 and EP128 for the year 3 work program (beginning in June 2010), being the "acquisition of seismic data";
ii) commence the drilling of one horizontal well into the basal Arthur Creek Shale zone on either of EP127 or EP128 by the first day of the 6th month of the year 3 work program; and
iii) commission a resource evaluation report in respect of EP127 and/or EP128, to be prepared by a reputable engineering firm of the Corporation's choice, before the date that is 4 months after the date of the Baraka Farmin Agreement.

As at December 31, 2010, the Corporation had completed requirement iii) above under the Baraka Farmin Agreements. The remaining commitments under the Baraka Farmin Agreement will be met in accordance with the EP 127 and EP 128 Minimum Work Plan Commitments below.

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/cost estimates as at December 31, 2011
Year 4	December 14, 2011	December 13, 2012	Acquire seismic data	Outstanding
Year 5	December 14, 2012	December 13, 2013	Drill one well to 600m Contingent on Year 4 drilling, drill two wells to 600m or one well to 1,200m	Outstanding

EP 128 Minimum Work Plan Commitments

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

Year	Start	End	Minimum work requirements	Status/cost estimates as at December 31, 2011
Year 3	June 14, 2010	June 13, 2012	Acquire seismic data	Outstanding
Year 4	December 14, 2011	December 13, 2012	Acquire seismic data Contingent on seismic results, drill one well to 600m or one well to 1,200m	Outstanding
Year 5	December 14, 2012	December 13, 2013	Drill one well to 600m Contingent on Year 4 drilling, drill two wells to 600m or one well to 1,200m	Outstanding

The Corporation has requested a suspension and variation of its Year 3 minimum work commitments with the government of the Northern Territory, Australia for EP 128 in order to acquire seismic data in late 2012. The Corporation's management has received positive feedback from the regulator and is confident it will be granted the suspension and variation due to the fact it has committed and incurred capital expenditures on EP 103, EP 104 and EP 127 that substantially exceed the government's minimum requirements. There can be no assurance that the steps management is taking will be successful.

As at December 31, 2011, the Corporation had the following material contracts and commitments:

	Total	2012	2013	2014	2015	2016
EP 103 minimum commitments	**518,995**	-	518,995	-	-	-
EP 104 minimum commitments	**1,037,990**	518,995	518,995	-	-	-
EP 127 minimum commitments	**3,446,128**	2,823,334	622,794	-	-	-
EP 128 minimum commitments	**1,505,086**	882,292	622,794	-	-	-
Leases	**258,750**	134,451	102,761	21,538	-	-
	6,766,949	4,359,072	2,386,339	21,538	-	-

During the year ended December 31, 2011, the Corporation expensed $32,738 relating to operating leases it maintained throughout the year.

As at December 31, 2011, through the normal course of business the Corporation had an outstanding dispute with a third party service provider that in aggregate totaled $1,270,844. In management's opinion these charges are unsubstantiated and therefore have not been accrued.

Segmented Information

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

	Year ended December 31, 2011		Year ended December 31, 2010	
	Canada	**Australia**	**Canada**	**Australia**
EXPENSES				
General and administrative	**1,519,121**	**2,332,495**	1,494,402	931,102
Loss on marketable securities	**7,935**	**-**	-	-
Foreign exchange gain	**(124,874)**	**-**	-	-
Financial derivative instruments (Note 19)	**(221,966)**	**-**	-	-
Share-based compensation (Note 15)	**4,902,076**	**-**	1,993,107	-
Depreciation	**1,211**	**24,440**	513	-
Corporate acquisition costs	**1,173,087**	**-**	-	-
Listing expense	**-**	**-**	878,338	-
Results from operating activities	**7,256,590**	**2,356,935**	4,366,360	931,102
Finance income	**438,553**	**52,846**	29,654	70,227
Finance costs	**(2,784)**	**(20,241)**	(1,230)	(7,371)
Net finance income	**435,769**	**32,605**	28,424	62,856
Net loss before taxes	**(6,820,821)**	**(2,324,330)**	(4,337,936)	(868,246)
Deferred tax recovery (Note 17)	**768,599**	**-**	-	-
Net loss from continuing operations	**(6,052,222)**	**(2,324,330)**	(4,337,936)	(868,246)
Net earnings from discontinued operations (Note 10)	**41,374**	**-**	-	-
NET LOSS	**(6,010,848)**	**(2,324,330)**	(4,337,936)	(868,246)
Exploration and evaluation assets (end of year)	**-**	**96,454,822**	-	10,213,926
Exploration and evaluation expenditures	**-**	**26,630,986**	-	6,560,451
Total assets (end of year)	**26,508,372**	**107,990,300**	54,541,103	13,440,714

Compensation of Key Management Personnel

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

	Year ended December 31	
	2011	**2010**
Salaries, directors fees and other benefits	**1,013,932**	968,462
Severance	**280,000**	-
Share-based compensation	**3,094,813**	1,587,984
	4,388,745	2,556,446

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

Off Balance Sheet Arrangements

The Corporation had no guarantees or off-balance sheet arrangements except for certain lease agreements that were entered into in the normal course of operations. All leases are treated as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the balance sheet as at December 31, 2011. The total future obligation from these operating leases is described above in the section "Material Contracts, Commitments and Contingencies".

Related Party Transactions

In accordance with the terms of an Administrative Services Agreement ("ASA"), Rodinia provides certain administrative services and office accommodations to the Corporation on a cost recovery basis. Rodinia and the corporation share five common directors and three common executives. ASA charges are recorded to general and administrative expenses in the Corporation's financial statements. For the year ended December 31, 2011, Rodinia charged $592,455 of ASA expense, respectively. Included in accounts payable as at December 31, 2011, is a $158,228 payable to Rodinia.

Accounting Estimates

Management of the Corporation is responsible for applying judgment in preparing accounting estimates. Certain estimates and related disclosures included within the consolidated financial statements are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from management's current judgments. The following are significant accounting estimates:

- In regard to stock-based compensation the Corporation has estimated the volatility, expected life and risk-free interest rates of the stock-based compensation.

- The carrying value of petroleum and natural gas properties is limited to the future expected cash flows from the properties. If it is determined that carrying values of petroleum and natural gas properties cannot be recovered from future cash flows, the asset is written down to its estimated fair value via a charge to earnings.

- The determination of the Corporation's income and other tax liabilities and assets requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

Change in Accounting Policies and Recent Accounting Pronouncements

At the date of authorization of the consolidated financial statements, certain new standards, amendments, and interpretations to existing IFRS standards have been published but are not yet effective, and have not been adopted early by the Corporation. Management anticipates that all of the pronouncements will be adopted in the Corporation's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments, and interpretations that are expected to be relevant to the Corporation's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Corporation's consolidated financial statements.

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Corporation has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

(i) IFRS 9, Financial Instruments, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 with earlier transition options available.

(ii) IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation—Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements.

(iii) IFRS 11, Joint Arrangements, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

(iv) IFRS 12, Disclosure of Interests in Other Entities, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

(v) IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is 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. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

(vi) There have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

(vii) IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in Other Comprehensive Income into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

(viii) IFRS 7, Financial Instruments: Disclosures, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted.

(ix) IAS 12, Income Taxes, was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner or recovery or settlement. SIC 21, Income Taxes - Recovery of Revalued Non-Depreciable Assets, will no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

Disclosure Controls and Procedures

Management has designed disclosure controls and procedures to provide a reasonable level of assurance that material information relating to the Corporation is made known to the Chief Executive Officer and the Chief Financial Officer by others within the Corporation, particularly during the period in which the annual and interim filings of the Corporation are being prepared, in an accurate and timely manner in order for the Corporation to comply with its disclosure and financial reporting obligations. Consistent with the concept of reasonable assurance, the Corporation recognizes that the relative cost of maintaining these controls and procedures should not exceed their expected benefits. As such, the Corporation's disclosure controls and procedures can only provide reasonable assurance, and not absolute assurance, that the objectives of such controls and procedures are met.

Internal Controls over Financial Reporting

The Chief Executive Officer and Chief Financial Officer of the Corporation are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. While management of the Corporation has put in place certain plans and procedures to mitigate the risk of a material misstatement in the Corporation's financial reporting, a system of internal controls can provide only reasonable, not absolute, assurance that the objectives of the control system are met, no matter how well conceived or operated. No changes were made to the Corporation's internal control over financial reporting during the year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Business Risks and Uncertainties

The Corporation's business is subject to risks inherent in oil and natural gas exploration and development operations. In addition, there are risks associated with the Corporation's current and future operations in the foreign jurisdictions in which it operates. The Corporation has identified certain risks pertinent to its business including: exploration and reserve risks, drilling and operating risks, changes to regulatory requirements, costs and availability of materials and services, capital markets and the requirement for additional capital, loss of or changes to joint venture or related agreements, economic and sovereign risks, reliance on joint venture partners, market risk, volatility of future oil and natural gas prices and foreign currency risk.

Exploration, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves that the Corporation may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Corporation's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that the Corporation will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Corporation may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomical. There is no assurance that commercial quantities of oil and natural gas will be discovered or acquired by the Corporation.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays due to weather or environmental conditions, land owner access issues and in obtaining governmental and other approvals or consents, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Limited Operating and Earnings History

The Corporation only recently commenced operations in Australia and has no earnings history. Accordingly, the Corporation has no operating history in the oil and gas industry in Australia and has no meaningful, historical financial information or record of performance. The Corporation's business plan requires significant expenditure, particularly capital expenditure, in its oil and gas establishment phase. Any future profitability from the Corporation's business will be dependent upon the successful development of the Corporation's lands, and there can be no assurance that the Corporation will achieve profitability in the future. There are no known quantities of oil or natural gas reserves on the Corporation's properties.

Investment Risks

Revenues, other than interest on unused funds, may not occur for some time, if at all. The timing and extent of these is variable and uncertain and accordingly the Corporation is unable to predict when, if at all, profitability will be achieved. An investment in the Common Shares is highly speculative and should only be made by persons who can afford a significant or total loss of their investment.

Cash Flow from Operations

The cash flow used in operations of the Corporation for the period ended December 31, 2011 was $1,406,082. The Corporation has a history of negative cash flow from operations and the inability of the Corporation to generate positive operating cash inflow in the future could have a material adverse impact on its business, operations and prospects.

Competition

Oil and gas exploration is intensely competitive in all phases and involves a high degree of risk. The Corporation competes with numerous other participants in the search for, and the acquisition of, oil and natural gas properties. The Corporation's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Corporation. Currently the Corporation is insulated from competition on the lands which it currently holds due to the nature of the proprietary exploration rights granted by the governing bodies under the various licenses and permits, however the Corporation may face competition on surrounding lands if it seeks to increase its land position to acquire other prospective leads. The Corporation may also face competition from competitors on lands which it currently holds a license or permit for in the event that, as a condition of the license or permit, it is required to partially relinquish certain of the lands. In this circumstance, if the Corporation elects to re-apply for such permits or licenses, there are no assurances that the Corporation will be successful. The Corporation's ability to add reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery. Competition may also be presented by alternate fuel sources.

Delays in Business Operations

In addition to the usual delays in payments by purchasers of oil and natural gas to the Corporation or to the operators, and the delays by operators in remitting payment to the Corporation, payments between these parties may be delayed due to restrictions imposed by lenders, accounting delays, delays in the sale or delivery of products, delays in the connection of wells to a gathering system, adjustment for prior periods, or recovery by the operator of expenses incurred in the operation of the properties. Any of these delays could reduce the amount of cash flow available for the business of the Corporation in a given period and expose the Corporation to additional third party credit risks.

Availability of Drilling Equipment and Access

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities. Recent industry conditions have led to extreme shortages of drilling equipment in certain areas. To the extent that the Corporation is not the operator of its oil and natural gas properties, the Corporation will be dependent on such operators for the timing of activities related to such properties and may be unable to direct or control the activities of the operators.

Expiration of Permits, Applications and Authorities

The Corporation's properties will be held in the form of permits, licenses, applications, authorities and working interests in permits, licenses, applications and authorities. If the Corporation or the holder of the permits, licenses, applications and authorities fails to meet the specific requirement of the permits, licenses, applications or authorities, the permits, licenses, applications or authorities may terminate or expire. There can be no assurance that the obligations required to maintain each of the permits, licenses, applications and authorities will be met. The termination or expiration of the Corporation's permits, licenses, applications and authorities or the working interests relating to the permits, licenses, applications and authorities may have a material adverse effect on the Corporation's results of operations and business.

Operational Dependence

In the future other companies may operate some of the assets in which the Corporation has an interest. As a result, the Corporation may have limited ability to exercise influence over the operation of such assets or their associated costs, which could adversely affect the Corporation's financial performance. Therefore, the Corporation's return on the assets operated by others will depend upon a number of factors that may be outside of the Corporation's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

Reliance on Key Personnel

The Corporation's success will depend in large measure on the performance of the Board and other key personnel. The loss of services of such individuals could have a material adverse affect on the Corporation. The Corporation does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations of the Corporation are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation.

Assessments of Value of Acquisitions

Acquisitions of oil and natural gas issuers and oil and natural gas assets are typically based on engineering and economic assessments made by independent engineers and the Corporation's own assessments. These assessments will include a series of assumptions regarding such factors as recoverability and marketability of oil and gas, future prices of oil and gas and operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the Corporation's control. In particular, the prices of, and markets for, oil and natural gas products may change from those anticipated at the time of making such assessment. In addition, all such assessments involve a measure of geological and engineering uncertainty which could result in lower than anticipated production and reserves. Initial assessments of acquisitions may be based on reports by a firm of independent engineers that are not the same as the firm that the Corporation may use for its year-end reserve evaluations. Because each of these firms may have different evaluation methods and approaches, these initial assessments may differ significantly from the assessments of the firm used by the Corporation. Any such instance may offset the return on and value of the Common Shares.

Estimate of Fair Market Value

There are numerous uncertainties inherent in an estimate of fair market value including many factors beyond the Corporation's control. The valuations herein represent estimates only. In general, estimates are based upon a number of variable factors and assumptions, such as engineering and geophysical information pertaining to hydrocarbon potential, current material contracts of the Corporation, production history of competitors on similar land positions, access to lands, availability, timing and amount of capital expenditures, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies, and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative, and are only attempts to define the degree of speculation involved.

Third Party Credit Risk

The Corporation is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Corporation, such failures could have a material adverse effect on the Corporation and its cash flow from operations.

Joint Venture

The Corporation may become a party to joint venture operating agreements in the future. Under these agreements, the Corporation may be required to adapt into programs and budgets, with which it does not necessarily agree or have the cash resources to fund. However, in these circumstances the Corporation would be able to elect to not participate in such programs, but in doing so would be subject to certain penalty criteria. It may also be required to contribute to any increases in capital expenditure requirements and/or operating costs. Furthermore, the situation could arise where any or all joint venture parties are unable to fund their pro rata contributions to expenditure, in which case the Corporation may have to make increased contributions to ensure that the program succeeds.

The Corporation will be required under joint operating agreements to pay its percentage interest of all costs and liabilities incurred by the joint venture in connection with the joint venture activity. In common with the other joint venture parties, if the Corporation fails to pay its share of any costs and liabilities it may be deemed to have withdrawn from the joint venture and may have to transfer its interests in the exploration permits and the joint operation agreements to the other joint venture participants.

Management of Growth

The Corporation may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Corporation to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Corporation to deal with this growth could have a material adverse impact on its business, operations and prospects.

Insurance

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, the Corporation is not fully insured against all of these risks, nor are all such risks insurable. Prior to drilling, the Corporation will obtain insurance in accordance with industry standards to address certain of these risks. However, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not be insurable in all circumstances or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any such uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Corporation's financial position, results of operations or prospects.

Corporate Matters

The Corporation does not anticipate the payment of any dividends on the Common Shares for the foreseeable future. Certain directors and officers of the Corporation are also directors and officers of other oil and natural gas companies involved in natural resource exploration and development, and conflicts of interest may arise between their duties as directors and officers of the Corporation and as directors and officers of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as applicable under the Alberta Business Corporations Act.

Title to Properties

Title to oil and natural gas interests is often not capable of conclusive determination without incurring substantial expense. Although title reviews will be done according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim of the Corporation. To the extent title defects do exist, it is possible the Corporation may lose all or a portion of its right, title, estate and interest in and to the properties to which the title relates.

Additional Funding Requirements

From time to time, the Corporation will require additional financing in order to carry out its oil and natural gas exploration and development activities. Failure to obtain such financing on a timely basis could cause the Corporation to have limited ability to expend the capital necessary to undertake or complete future exploration programs, forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. Moreover, future activities may require the Corporation to alter its capitalization significantly.

Currency

From time to time the Corporation may exchange Canadian currency to Australian currency; however, if the Australian dollar declines in value compared to the Canadian dollar after the currency exchange, the Corporation will not benefit from the fluctuating exchange rate.

Dilution

The Corporation may make future acquisitions or enter into financing or other transactions involving the issuance of securities of the Corporation which may be dilutive to existing shareholders.

Regulatory

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. The Corporation's operations require licenses and permits from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development of its projects.

In Australia, government policies and regulations vary in different states and between different governing bodies in relation to exploration, mining and marketing. The Corporation's activities will require compliance with various laws, both state and those of the Commonwealth of Australia, relating to, among other things, the protection of the environment, Aboriginal heritage and culture, native title, the protection of workers and the public. Changes in government, government policies and legislation could have a material adverse affect on the Corporation.

In particular, in order to pursue its exploration programs in Australia, the Corporation may require approval from government and non-government bodies to facilitate access to any blocks and tenements in which it has an interest. Any tenements residing within reserves, including national parks and conservation reserves, which are subject to state and Commonwealth legislation, could be subject to a change in legislation that could have a material adverse effect on the Corporation. In addition, any tenements residing in areas which are subject to government policies regarding national defense or of any other particular national interest to Australia may be subject to access requirements that could result in a material adverse affect on the Corporation.

The Corporation's licenses, permits and authorizations will be subject to applications for renewal in accordance with their terms. Where a licensee has not complied with the conditions to which an exploration permit is subject, or any directions given by the relevant Minister and the Minister is not satisfied that circumstances exist that justify the granting of the renewal of the permit, the Minister may refuse to grant a renewal of a permit. Where a Minister is satisfied that a commercially exploitable accumulation of petroleum may occur in an exploration permit area, the Minister may require the licensee to apply for a production license. A Minister may also refuse to grant a production license, or may grant a production license subject to such conditions as the Minister sees fit. If a permit is not renewed or a production license is not granted or granted subject to unfavorable conditions, the Corporation may suffer significant damage through loss of the opportunity to develop and discover that tenement and this could have an adverse affect on the Corporation's business plan.

Rights to licenses, permits and authorities held by the Corporation carry with them various obligations in regard to minimum expenditure levels and responsibilities in respect of the environment and safety generally. Failure to observe such requirements could prejudice the right to maintain title to a given area.

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and the potential for increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Generally, Australian state and territory legislation and associated regulations include provisions for the regulation of activities on petroleum tenement lands. Statutory provisions require petroleum tenement lands to be protected and rehabilitated to ensure that environmental damage is avoidable or minimal where authorized. These provisions may require approvals and consents to be obtained before certain lands may be accessed and explored. In addition, each state and territory government may impose a wide range of obligations on tenement holders to ensure that petroleum operations comply with various environmental standards and requirements.

No assurance can be given that environmental laws will not result in a curtailment of future production (if any) or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Corporation's financial condition, results of operations or prospects.

Changes in Legislation

The return on an investment in securities of the Corporation is subject to changes in Canadian and Australian tax laws and government incentive programs and there can be no assurance that such laws or programs will not be changed in a manner that adversely affects the Corporation or the holding and disposing of the securities of the Corporation.

Legislation and regulations continue to be introduced by government and government agencies concerning the security of industrial facilities, including oil and natural gas facilities. The Corporation's operations may be subject to such laws and regulations. Presently, it is not possible to accurately estimate the costs the Corporation could incur to comply with any such laws or regulations, but such expenditures could be substantial.

Income Taxes

The Corporation will file all required income tax returns and believes that it will be in full compliance with the provisions of the Tax Act and all other applicable tax legislation. However, such returns are subject to reassessment by applicable taxation authorities. In the event of a successful reassessment of the Corporation, whether by re-characterization of exploration and development expenditures or otherwise, such reassessment may have an impact on current and future taxes payable.

Aboriginal Heritage

The procedures and regulatory powers set forth in applicable laws relating to Aboriginal heritage in Australia may delay, limit or prevent oil and gas exploration activities in Australia. Such procedures and powers, to the extent they affect the Corporation, may have an adverse effect on the Corporation's financial condition, results of operations or prospects.

Integrity of Disclosure

The Corporation's management maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable.

The Board is responsible for ensuring that management fulfills its responsibilities. The Audit Committee fulfills its role of ensuring the integrity of the reported information through its review of the audited consolidated financial statements. The Board approves the annual audited consolidated financial statements and MD&A on the recommendation of the Audit Committee. The Corporation has approved and distributed to all staff a series of policy papers that include Code of Business Conduct and Ethics, Whistle Blower Policy and Procedures, Insider Trading and Reporting Guidelines, Disclosure Policy and Board Control System. Terms of References define Audit Committee and Compensation and Governance Committees. The Corporation has a defined Board Mandate. All consultant contracts are current and approved by independent members of the Board.

Additional Information

Additional information on the Corporation can be accessed at www.sedar.com or from the Corporation's website at www.petrofrontier.com or by contacting the Corporation at PetroFrontier Corp., Suite 320, 715 – 5th Avenue S.W., Calgary, Alberta T2P 2X6.