PetroFrontier

Management's Discussion & Analysis for the nine months ended September 30, 2012

MANAGEMENT’S DISCUSSION & ANALYSIS (“MD&A”)

PetroFrontier Corp.
September 30, 2012

PetroFrontier Corp. (the “Corporation”) is a public company engaged in international petroleum exploration in Northern Territory, Australia.

This Management’s Discussion & Analysis (“MD&A”) is a review of the Corporation’s performance, financial condition and future prospects for the three and nine months ended September 30, 2012. This MD&A should be read in conjunction with the audited consolidated annual financial statements and the related notes thereto for the years ended December 31, 2011 and 2010 and the condensed consolidated interim financial statements for the three and nine months ended September 30, 2012. The consolidated 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 consolidated 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. Therefore, the comparative information for 2010 has been restated and prepared in accordance with our IFRS accounting policies.

The Corporation's Audit Committee has reviewed and approved the condensed consolidated interim financial statements and MD&A, both of which are effective November 26, 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

The Corporation was incorporated as Australia Energy Corp. (“AEC”) 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 includes 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”.

Summary of Recent Corporate Transactions

On June 18, 2012, the Corporation announced that it had completed the earning of a 50% working interest in EP 127 and EP 128 (Northern Territory, Australia) pursuant to its previously announced farm-in agreement with Baraka Energy & Resources Limited (formerly Baraka Petroleum Limited). This earning increased the Corporation's working interest in EP 127 and EP 128 to 75% from 25% in 7.9 million gross undeveloped exploratory acres (5.9 million net).

On June 20, 2012, the Corporation entered into a binding farm-in agreement (the "Farm-in Agreement") with Statoil Australia Oil and Gas AS ("Statoil"), a wholly-owned subsidiary of Statoil ASA of Norway, effective January 1, 2012. Pursuant to the terms of the Farm-in Agreement, Statoil will have the option to earn up to 65% of the Corporation's working interests in EP 103, EP 104, EP 127 and EP 128 and in EPA 213 and EPA 252 in exchange for exploration program related payments and carried costs of up to US$210.0 million over three phases.

Also on June 20, 2012, the Corporation entered into a bought deal financing with Macquarie Capital Markets Canada Ltd. ("Macquarie") to raise gross proceeds of $15.0 million at a price of $1.00 per subscription receipt.

On July 11, 2012, the Corporation announced that it had received a notice of termination from Macquarie terminating its obligations pursuant to the Underwriting Agreement made effective June 20, 2012 (the "Underwriting Agreement"). The notice of termination received from Macquarie did not provide the reason for Macquarie terminating its obligations under the Underwriting Agreement. Management of the Corporation is of the view that Macquarie did not have a valid legal reason to terminate the Underwriting Agreement and the Corporation is currently reviewing its options in this regard.

On July 16, 2012, the Corporation announced that the Foreign Investment Review Board of Australia ("FIRB") had no objection to the joint venture between Statoil and the Corporation. This approval satisfied the last condition precedent of the Farm-In Agreement announced on June 20, 2012.

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

As part of the private placement announced in September, some members of the Corporation's Board of Directors and senior management acquired approximately 10% of those Units, further aligning with shareholders through increased ownership positions.

The Corporation's Annual General Meeting, originally scheduled for Wednesday December 12, 2012, has been postponed and is expected to be held in early to mid-2013.

Statoil Farm-In

A key objective for the Corporation was to align with a partner that has significant experience in the unconventional space. The active involvement of Statoil in the Bakken, Marcellus and Eagle Ford plays and its strategic focus on applying technology to expand the global search for unconventional hydrocarbon resources clearly meets this objective. The US$210 million farm-in by Statoil gives global credibility to the Corporation's unconventional resource potential identified in the Southern Georgina Basin.

Farm-In Terms

- Phase 1 - US$50 million Capital Program (2012 & 2013)
    - The Corporation and Statoil contribute US$25 million each
    - The Corporation is the operator
    - Statoil only earns a net 25% working interest if it elects to proceed to Phase 2 by reimbursing to the Corporation US$25 million and committing to spend US$80 million in Phase 2

- Phase 2 – US$100 million Capital Program (2014 & 2015)
    - The Corporation contributes US$20 million and Statoil contributes US$80 million
    - Statoil has the option to become the operator
    - Statoil has the option to elect to proceed to Phase 3
    - Statoil will earn an additional 25% working interest at the end of Phase 2
    - Total average working interest at end of Phase 2: the Corporation 43.3% (6.1 million acres), Statoil 43.3% (6.1 million acres), Baraka 13.4% (1.9 million acres)

- Phase 3 – US$80 million Capital Program (2016)
    - Statoil contributes US$80 million and the Corporation contributes nil
    - Statoil is the operator
    - Statoil earns an additional 15% working interest at the end of Phase 3
    - Total average working interest at end of Phase 3: Statoil 56.3% (8 million acres), the Corporation 30.3% (4.3 million acres), Baraka 13.4% (1.9 million acres)

On November 6, 2012 an announcement was made that another international oil and gas company, French supermajor Total SA, had agreed to a multi-staged farmin with an Australian listed company operating in the Southern Georgina Basin on permits adjacent to the Corporation's lands. This agreement has again validated the play potential that the Corporation and Statoil are currently developing in the Southern Georgina Basin, Northern Territory.

Operational Update

During the third quarter of 2012, the Corporation, together with its partners continued to focus on their joint exploration program in the Southern Georgina Basin, Northern Territory.

The Corporation and its partners, Baraka and Statoil, successfully completed a nine stage hydraulic stimulation of the MacIntyre-2H well located in EP 127. After recovering approximately one-third of the hydraulic stimulation fluid, traces of biogenic hydrogen sulphide gas were detected and the well was suspended in September 2012.

Biogenic hydrogen sulphide is created through a chemical process in water that contains sulfate reducing bacteria (SRBs) that has been injected into the well. This process induces chemical changes to form hydrogen sulphide via a complex series of biochemical reactions.

Through July to September, the Corporation and Statoil successfully drilled their third horizontal well, Owen-3H, located on the eastern side of EP 104. Final measured depth was 2,153 metres, of which the horizontal section was 966 metres targeting the Lower Arthur Creek and Upper Thorntonia formations. Initial assessment of the cores retrieved from the vertical section of Owen-3H seeped oil and had extensive fluorescence throughout. This well was wire line logged with equally encouraging results indicating over 25 metres total vertical depth of hydrocarbon bearing formation. During the drilling of the horizontal section oil staining and oil spots in the mud at the shaker, strong gas recordings up to C_5 and milky yellow fluorescing cut (oil when exposed to UV light fluoresces) were also observed.

As planned, a successful hydraulic stimulation was performed on the Owen-3H well over ten open-hole stages in October. The Corporation and Statoil are encouraged by the low fluid injection pressures and high injection rates evident during this operation as it indicates the presence of natural permeability due to natural fracturing and/or significant porosity within the Lower Arthur Creek and Thorntonia Formations.

Like the MacIntyre-2H well, nuisance levels of biogenic hydrogen sulphide were encountered in the initial flow back of the stimulation fluid at Owen-3H and subsequently the well was temporarily suspended. The operations team was able to accelerate the purchase and assembly of the hydrogen sulphide resistant equipment and chemical hydrogen sulphide scavenger equipment initially planned for MacIntyre-2H for use at Owen-3H. The Corporation also purchased a high capacity jet pump from North America for use at Owen-3H.

During the hydraulic stimulation of the Baldwin-2Hst1 well located in EP 103, a shallow casing failure occurred at a depth of approximately 102 metres and as a result, the Corporation was unable to complete the stimulation program. The hydraulic stimulation treatment pressure was less than expected at 5,000 psi, while the casing was rated in excess of 7,000 psi. The casing failed at approximately 4,000 psi, which confirms that there was a mechanical problem with the casing itself. The well was safely suspended on September 25, 2012. The Corporation and its partner are currently evaluating future plans for this well.

All of these issues have resulted in unforeseen operational delays only. However, the geological prospectivity of all three wells remains intact.

One of the challenges the Corporation has faced is its ability to estimate capital expenditure costs precisely. There is an overall lack of competition with many of the oil field services in Australia. This lack of competition results in very high operating costs and any delays or unforeseen operational challenges can result in substantial cost overruns. Furthermore, the Corporation's operations are located in a very remote area, which also increases the potential for higher than anticipated costs.

The Corporation continues to apply the lessons learned from its operations and, in conjunction with its partners Baraka and Statoil, will continue to assess the most efficient and cost effective way to explore and develop its unconventional resource potential in the Southern Georgina Basin. The Corporation and its partners hold work place safety in its highest regard and the Corporation has taken an exemplary lead in dealing with the safety issues that have been associated with these operational issues.

The Corporation believes that it has developed solid relationships within the local communities, the business community and government authorities in the Northern Territory. This has enabled the operations team access to opportunities and to facilitate the cooperation needed to successfully execute these programs in a timely manner.

Outlook

As at September 30, 2012, the Corporation had a working capital surplus of $16,202,954 with no debt. The exploration and evaluation asset expenditures incurred during the three months and nine months ended September 30, 2012 totaled $6,223,102 and $12,360,956 relating primarily to MacIntyre-2H and Owen-3H drilling costs and long lead item expenditures associated with the Corporation's 2012 drilling and well completion programs in the Southern Georgina Basin.

Statoil's involvement provides the Corporation with the operational expertise and the financial resources required to unlock the potential value of the Corporation's extensive 14.1 million exploration acreage. The Corporation also expects that through increased access to global procurement services the Corporation's future operational cost structure would significantly improve.

Drawing on the Phase 1 2012 well results, the Corporation and Statoil will further de-risk the assets through a mutually agreed Phase 1 2013 work program. Dependent on Statoil's elections to proceed to Phases 2 and 3, both parties will continue to agree on future capital expenditure programs to include, but not limited to, future drilling locations, completion programs and seismic programs, in order to explore the Corporation's acreage and to ensure the minimum work commitments are maintained in order to keep all exploration permits in good standing throughout Phases 2 and 3.

The Phase 1 (2012 & 2013) joint exploration program consists of US$50 million (each of Statoil and the Corporation contributing $25 million). Exploration and evaluation asset expenditures for 2012 are projected to be approximately US$35 million with the balance of the Phase 1 commitment of approximately US$15 million being expended in 2013.

Concurrent with the private placement proceeds of $10,000,000 received in September 2012 and working capital on hand, the Corporation has adequate funding to provide for the majority of the Phase 1 joint exploration program. However, should the warrants associated with the September private placement not be accelerated via the Trigger Event, as discussed previously in this MD&A, the Corporation will need to raise additional capital during Q1 or Q2 2013 in order to satisfy the remainder of the 2013 Phase 1 joint exploration program.

Overview of Consolidated Financial Results

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

	Q3 2012 ($)	Q2 2012 ($)	Q1 2012 ($)	Q4 2011 ($)
Net loss[1]	1,729,533	2,050,642	1,656,296	1,687,928
Per common share (basic and diluted)	0.03	0.03	0.03	0.03
Positive/(negative) cash flow from operations	7,083,525	1,390,495	(7,782,447)	1,687,036
Working capital[2]	16,202,954	13,901,981	20,966,289	22,663,020
Total assets	154,592,491	136,575,185	129,466,691	134,498,673
Shareholders' equity	115,651,279	109,287,939	110,268,368	111,384,110

	Q3 2011 ($)	Q2 2011 ($)	Q1 2011 ($)	Q4 2010 ($)
Net loss[1]	2,041,095	2,906,028	1,700,127	4,020,043
Per common share (basic and diluted)	0.03	0.05	0.04	0.16
Positive/(negative) cash flow from operations	(926,003)	(703,870)	(1,575,358)	(836,456)
Working capital[2]	34,941,213	38,405,486	52,933,143	55,001,333
Total assets	134,200,160	133,538,771	65,927,920	67,981,817
Shareholders' equity	111,778,047	112,903,757	64,168,552	65,217,309

(1) The Corporation is in the exploration phase and therefore there is currently no oil and natural gas producing properties from which to generate revenues. The Corporation's net loss for the periods was generated primarily from share-based compensation expense (non-cash) and G&A expenses including salaries, office costs, and travel costs.

(2) The source of the majority of the Corporation's working capital is from the private placement financings that closed in September 2012 for gross proceeds of $10,000,000. Prior to September 2012, the source of the Corporation's working capital is from the private placement financing that closed in December 2010 for gross proceeds of $58,500,000.

Cash and cash equivalents

As at September 30, 2012, cash and cash equivalents totaled $11,141,237 as compared to $24,358,559 as at December 31, 2011, respectively. The decrease in cash and cash equivalents relates primarily to general and administrative expenses, exploration and evaluation asset expenditures of $12,360,956 incurred during the nine months ended September 30, 2012 and the payment of outstanding accounts payable and accrued liabilities outstanding as at December 31, 2011. The source of the majority of the Corporation's funds as at September 30, 2012 was from the private placement financings that closed in September 2012 for gross proceeds of $10,000,000. The following table summarizes the Corporation's cash and cash equivalents:

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

Restricted cash

As at September 30, 2012, restricted cash totaled $14,008,376 as compared to nil as at December 31, 2011, respectively. The Corporation has established various operating and trust accounts to effectively manage and ensure the timely payment of capital expenditures for the joint ventures it operates. The amounts deposited into these various accounts are considered restricted to the operations of the joint ventures. The following table summarizes the Corporation's restricted cash:

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

Term deposits

As at September 30, 2012, term deposits totaled nil as compared to $2,500,000 as at December 31, 2011, respectively. The following table summarizes the Corporation's term deposits:

	September 30, 2012	**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

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 market to market losses of $12,826 and $41,829 for the three and nine months ended September 30, 2012 on this marketable security.

Financial Instruments

The fair value of cash and cash equivalents, restricted cash, 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 held for trading and as level 1 within the fair value hierarchy. They are recorded on the Corporation's statement of financial position at the fair value on the reporting date.

The Corporation uses forward foreign currency exchange rate contracts and options in order to reduce its exposure to currency risks from fluctuations in the Canadian and Australian currencies. These contracts are classified as Level 2 within the fair value hierarchy and are recorded on the Corporation's statement of financial position as an asset or liability based on reporting date fair values. During the three and nine months ended September 30, 2012 the Corporation recorded a gain on financial instruments of nil and $150,631, respectively. As at September 30, 2012, the Corporation had no outstanding forward foreign currency exchange rate option contracts.

Accounts Receivable

Accounts receivable increased from $1,400,005 at December 31, 2011 to $11,764,689 at September 30, 2012. The accounts receivable balance at September 30, 2011 and December 31, 2011 relate primarily to joint venture receivables and 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:

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

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

Prepaid Expenses and Deposits

The following tables summarize the Corporation's prepaid expenses and deposits:

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

Prepaid expenses and deposits increased from $666,998 at December 31, 2011 to $1,119,220 at September 30, 2012. As at September 30, 2012, the Corporation had a deposit for approximately $400,000 (Australian dollars) remaining on deposit with an Australian drilling company relating to outstanding billings for the 2012 drilling program. The Corporation also paid $500,000 (Australian dollars) to the Northern Territory government pertaining to various environmental and abandonment deposits. In addition, $100,000 (Australian dollars) was paid as a deposit in conjunction with the Baraka Farmin Agreements that will be returned to the Corporation upon satisfaction of the farm-in commitments.

Exploration and Evaluation Assets

Exploration and evaluation assets at September 30, 2012 totaled $107,691,436 as compared to $96,454,822 at December 31, 2011. Exploration and evaluation asset expenditures incurred during the three and nine months ended September 30, 2012 totaled $6,223,102 and $12,360,956 and related primarily to drilling costs for the MacIntyre-2H and Owen-3H wells and long lead item expenditures associated with the Corporation's 2012 drilling and well completion programs in the Georgina Basin.

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 Lower Arthur Creek 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. There were no new indicators of impairment as at September 30, 2012 and as such the goodwill was not assessed for impairment at that time.

The following table summarizes the Corporation's goodwill:

	September 30, 2012 ($)	**December 31, 2011 ($)**
Cost		
Balance, January 1	**8,946,231**	-
Additions	**-**	9,773,469
Dispositions	**-**	(768,599)
Foreign currency translation	**(147,051)**	(58,639)
Balance	**8,799,180**	8,946,231
Accumulated impairment losses:		
At January 1	**-**	**-**
Impairment losses recognized in the year	**-**	**-**
Balance	**-**	**-**
Net book value	**8,799,180**	8,946,231

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at September 30, 2012 totaled $21,742,021 as compared to $6,256,024 at December 31, 2011. The increase in accounts payable at the end of the current quarter was due to higher activity levels relating to drilling operations as at September 30, 2012 in comparison to December 31, 2011. The following tables summarize the Corporation's accounts payable and accrued liabilities:

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

Decommissioning Liabilities

Decommissioning liabilities at September 30, 2012 totaled $1,204,633 as compared to $596,680 at December 31, 2011. As at September 30, 2012 and December 31, 2011, $96,000 of the amount 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 quarter was due to the Corporation's ongoing drilling activities which gave rise to additional decommissioning liabilities as well as accretion expense of $9,798 and $24,332 that was recorded for the three and nine months ended September 30, 2012. The Corporation used discount rates ranging from 4.7% - 5.2% to account for its decommissioning liabilities.

Deferred Tax Liability

As at September 30, 2012, the Corporation has recorded a deferred tax liability of $16,319,229 as part of the acquisition of Texalta.

General and Administrative Expense

General and administrative ("G&A") expense for the three and nine months ended September 30, 2012 totaled $1,172,674 and $4,003,405 as compared to $996,947 and $2,494,419 for the three and nine months ended September 30, 2011. The increase in general and administrative expense over the same period in 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. As well, the Corporation incurred higher travel costs and professional fees associated with finalizing the binding farm-in agreement with Statoil.

Foreign Exchange Loss

The Corporation recorded a foreign exchange loss of $291,796 and $447,027 for the three and nine months ended September 30, 2012. The loss pertains almost entirely to Australian dollar cash that was held by the parent Corporation throughout the quarter.

Share-Based Compensation

Share-based compensation expense for the three and nine months ended September 30, 2012 totaled $297,749 and $1,278,404 as compared to $980,062 and $3,917,889 for the three and nine months ended September 30, 2011. The decrease in share-based compensation expense pertains to the fact that 1,189,000 stock options were granted during the nine months ended September 30, 2011 as compared to only 500,000 during the nine months ended September 30, 2012. In addition, at September 30, 2012 there were 4,416,668 options outstanding as compared to 5,400,000 at September 30, 2011.

Depreciation

Depreciation expense for the three and nine months ended September 30, 2012 totaled $13,344 and $39,369 as compared to $10,305 and $10,559 for the three and nine months ended September 30, 2011. The slight increase in depreciation expense for the three and nine months ended September 30, 2012 as compared to the same periods in 2011 is due to higher depreciation being recorded on corporate assets during the current year.

Finance income

Finance income for the three and nine months ended September 30, 2012 totaled $68,862 and $255,939 as compared to $111,377 and $385,023 for the three and nine months ended September 30, 2011. Overall, the finance income for the three and nine months ended September 30, 2012 and 2011 were as expected by management given the levels of cash on hand during the respective quarters.

Finance costs

Finance costs for the three and nine months ended September 30, 2012 totaled $10,006 and $33,007 as compared to $4,305 and $10,203 for the three and nine months ended September 30, 2011. Overall, the finance costs for the comparable years were as expected by management given the levels of banking activity. Also included in finance costs is accretion expense of $9,798 and $24,332 for the three and nine months ended September 30, 2012, 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 three and nine months ended September 30, 2012 of $1,729,533 and $5,436,471 as compared to a net loss of $2,041,095 and $6,647,250 for the same period in the prior year. 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 three and nine months ended September 30, 2012 was $0.03 and $0.08 per share as compared to $0.03 and $0.12 per share for the same period in the prior year.

Comprehensive Loss

The Corporation recorded a comprehensive loss for the three and nine months ended September 30, 2012 of $3,854,107 and $6,948,933 as compared to $2,649,852 and $6,933,074 for the three and nine months ended September 30, 2011. 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 three and nine months ended September 30, 2012, the Australian dollar relative to the Canadian dollar weakened slightly from CAD 1.037 at December 31, 2011 to CAD 1.020 at September 30, 2012 resulting in a loss on the conversion of the Corporation's Australian assets net of a gain incurred on the conversion of the Corporation's Australian liabilities. Similarly, for the three and nine months ended September 30, 2011, the Australian dollar relative to the Canadian dollar weakened slightly from CAD 1.016 at December 31, 2010 to CAD 1.011 at September 30, 2011 resulting in a loss on the conversion of the Corporation's Australian assets net of the gain incurred on the conversion of the Corporation's Australian liabilities.

Common share information

Weighted average outstanding common shares

	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Basic and diluted[(1)]	**65,103,182**	**54,894,237**

(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 September 30, 2012 and December 31, 2011 were as follows:

	September 30, 2012	December 31, 2011
Common shares	79,400,768	63,998,153
Warrants	15,384,615	675,000
Pendulum agent's options	-	2,500
Options	4,416,668	5,396,668
Total common shares (diluted)	**99,202,051**	70,072,321

As at September 30, 2012, the Corporation had $11,141,237 in cash and cash equivalents. The source of the Corporation's net working capital of $16,202,954 is a result of the private placement funds received in September 2012. The Corporation's exploration and evaluation expenditures for the three and nine months ended September 30, 2012 of $6,223,102 and $12,360,956 related primarily to the drilling of the

MacIntyre-2H and Owen-3H wells and long lead item expenditures associated with the Corporation's upcoming 2012 drilling and well completion programs in the Georgina Basin.

With current working capital on hand, the Corporation expects to have adequate funding to provide for general operations and to meet the Corporation's minimum work requirements with the government of the Northern Territory of Australia for a period of at least 12 months. The Corporation will need to raise additional capital during Q1 or Q2 2013 in order to satisfy the remaining financial commitments associated with the Phase 1 joint exploration program with Statoil.

The Corporation has 4,416,668 stock options and 15,384,615 common share purchase warrants outstanding as at September 30, 2012 at strike prices ranging from $0.25 to $3.60 and could potentially yield $22,693,389 of total proceeds. If all of these instruments are exercised it would result in an additional 19,801,283 common shares being issued, which represents dilution of 24.9% in comparison to the shares issued and outstanding as at September 30, 2012.

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	$ (AUD)	Status as at September 30, 2012
Year 5	May 21, 2012	May 20, 2013	Drill one exploration well	500,000	Outstanding

EP 104 Minimum Work Plan Commitment

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

Year	Start	End	Minimum work requirements	$ (AUD)	Status as at September 30, 2012
Year 5	May 21, 2012	May 20, 2013	Drill one exploration well	500,000	Outstanding

EP 127 Minimum Work Plan Commitments

In accordance with the terms of the EP 127 agreement with the government of the Northern Territory, Australia, the Corporation has the following minimum work commitments and timelines:

Year	Start	End	Minimum work requirements	$ (AUD)	Status as at September 30, 2012
Year 4	December 14, 2011	December 13, 2013	Acquire seismic data or drill a well	187,500	Outstanding
Year 5	December 14, 2012	December 13, 2014	Drill an exploration well	450,000	Outstanding

EP 128 Minimum Work Plan Commitments

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

Year	Start	End	Minimum work requirements	$ (AUD)	Status as at September 30, 2012
Year 3	June 14, 2010	December 13, 2013	Acquire seismic data	187,500	Outstanding
Year 4	December 14, 2011	June 13, 2014	Drill an exploration well	450,000	Outstanding
Year 5	June 14, 2013	June 13, 2015	Drill an exploration well	450,000	Outstanding

Statoil Farm-In Agreement

On June 20, 2012, the Corporation entered into a binding farm-in agreement (the "Farm-in Agreement") with Statoil, effective January 1, 2012. Pursuant to the terms of the Farm-in Agreement, Statoil will have the option to earn up to 65% of the Corporation's working interests in EP 103, EP 104, EP 127 and EP 128 and in EPA 213 and EPA 252 in exchange for exploration program related payments and carried costs of up to US$210.0 million over three phases.

Under the terms of the Farm-in Agreement, Statoil will participate with the Corporation in the exploration of the EPs and EPAs as follows:

- Phase 1 (2012 & 2013)
  - Phase 1 consists of a joint exploration program of US$50.0 million (with each of Statoil and the Corporation contributing US$25.0 million).
  - Depending on the results from the current drilling and fracturing program, the parties will agree on further drilling locations and seismic, in part to ensure that the work commitments for the respective EPs are kept current.
  - The Corporation will be the operator during Phase 1.

  - At the end of Phase 1, Statoil will have the option to acquire 25% of the Corporation's working interest by reimbursing the Corporation for its US$25.0 million Phase 1 contribution and by committing to proceed with Phase 2.

- Phase 2 (2014 & 2015)
  - The parties will conduct a further joint exploration program of US$100 million (with Statoil contributing US$80 million and the Corporation contributing US$20 million).
  - Statoil has the option of becoming the operator during Phase 2.
  - Once Statoil has contributed its US$80 million towards the Phase 2 program, it shall have earned an additional 25% of the Corporation's working interest in all of the EPs and EPAs and will have the option to commit to proceed with Phase 3.

- Phase 3 (2016)
  - The parties will conduct a further joint exploration program of US$80 million with Statoil contributing all US$80 million and the Corporation contributing nil.
  - Statoil shall be the operator during Phase 3.
  - Once Statoil has contributed its US$80 million towards the Phase 3 program, it shall have earned an additional 15% of the Corporation's working interest in all of the EPs and EPAs.

At the end of Phase 3, Statoil will have completed its earning in the EPs and EPAs and will share future costs with the Corporation based on their respective ownership percentages.

As at September 30, 2012, the Corporation had the following material contracts and commitments:

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

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

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

Segmented Information

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

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

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

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 September 30, 2012. 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 Oil Corp. ("Rodinia") provides certain administrative services and office accommodations to the Corporation and vice versa on a cost recovery basis. ASA charges are recorded to general and administrative expenses in the Corporation's condensed consolidated interim financial statements. For the three and nine months ended September 30, 2012, Rodinia charged $125,405 and $488,988 of ASA expense, respectively to the Corporation. As at September 30, 2012, $122,221 was outstanding as payable to Rodinia.

Accounting Estimates

Management of the Corporation is responsible for applying judgment in preparing accounting estimates. Certain estimates and related disclosures included within the condensed consolidated interim financial statements are particularly sensitive because of their significance to the condensed consolidated interim 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 exploration and evaluation assets is limited to the future expected cash flows from the properties. If it is determined that carrying values of exploration and evaluation assets 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.

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 condensed consolidated interim 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 three and nine months ended September 30, 2012 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 Used in Operations

The cash flow used in operations before changes in non-cash working capital of the Corporation for the three and nine months ended September 30, 2012 was $1,368,794 and $4,259,603. 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 are 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 is and 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 legislation, regulations and policy 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 legislation 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, the Northern Territory of Australia and 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 territory 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 work commitments and responsibilities in respect of the environment and safety generally. Failure to observe such requirements could prejudice the right to maintain good 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 avoided or minimized 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 has filed 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 condensed consolidated interim financial statements and audited consolidated annual financial statements. The Audit Committee approves the condensed consolidated interim financial statements and MD&A and the Board approves the audited consolidated annual 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.

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.