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

PetroFrontier Corp.
December 31, 2012

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, 2012 and 2011 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.

The Corporation's Audit Committee has reviewed and approved the consolidated financial statements and MD&A, both of which are effective April 25, 2013.

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 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".

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

PetroFrontier Corp.

December 31, 2012

Summary of Recent Corporate Transactions

On March 5, 2012, the Corporation announced that it had been awarded exploration permit application (“EPA”) 213 (1,527 km^2) and EPA 252 (2,273 km^2) in the western part of the Southern Georgina Basin, Northern Territory, Australia totaling 3,800 km^2 or 939,000 acres. These two EPAs are 100% owned by PetroFrontier and bring total gross acreage controlled by the Corporation to approximately 14.5 million acres and increasing net operated working interest to 87%

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 (“Baraka”). 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 to raise gross proceeds of $15.0 million at a price of $1.00 per subscription receipt. On July 11, 2012, the bought deal financing was terminated by the underwriter.

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.

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

The Corporation's 2012 capital program focused on mobilizing a drilling rig for the completion of the horizontal leg at MacIntyre-2 (EP 127), the Corporation's second location, the drilling of a third horizontal well at Owen-3 (EP 104) with the subsequent mobilization of a coil tubing unit and service rig for the hydraulic stimulation and completions program at the Corporation's three horizontal locations; Baldwin-2Hst1 (EP 103), MacIntyre-2H and Owen-3H.

MacIntyre-2H (EP 127)

The Corporation drilled the horizontal leg at its second location, MacIntyre-2H, during June 2012 reaching a total measured depth of 1,916 metres. The primary goal of staying within the Lower Arthur Creek Formation, for approximately 1,080 metres was met while recording positive hydrocarbons indications along the entire length of the horizontal section. The drilling of MacIntyre-2H satisfied the farm-in commitment with Baraka and increased the Corporation's working interest to 75% from 25% in EP 127 and EP 128 in 7.9 million gross undeveloped exploratory acres. Through the latter part of August 2012, the Corporation and its partners, Baraka and Statoil, successfully performed a hydraulic stimulation program on this well over nine open-hole stages. While in the initial phases of post-stimulation clean up and flow back what was believed to be biogenic hydrogen sulphide gas was detected and the well was suspended in early September 2012 pending further engineering and procurement evaluations. The Corporation and its partners are fully evaluating future costs for the mobilization and continued testing program at MacIntyre-2H.

Owen-3H (EP 104)

Following the drilling activities at MacIntyre-2H in June 2012, the drill rig was mobilized approximately 300 km to the Corporation's third horizontal drilling location, Owen-3H, located on the eastern side of EP 104. Through July and September, the Corporation and Statoil successfully drilled their third horizontal well to a final measured depth of 2,153 metres, of which the horizontal section was 966 metres targeting the Lower Arthur Creek and Upper Thorntonia Formations. Cores retrieved from the vertical section seeped oil and had extensive fluorescence throughout and during drilling of the horizontal section oil staining and gas recordings up to C_5 were also observed. External laboratory analysis indicated porosities ranging from 1.6% to 6.7% and low permeability, all as expected. This detailed laboratory analysis also indicated that the core fluids contained 90% oil.

As planned, a successful hydraulic stimulation was performed on the Owen-3H well over ten open-hole stages in October. The Corporation and Statoil were encouraged by the low fluid injection pressures and high injection rates evident during this operation as it indicated 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, low levels of biogenic hydrogen sulphide were encountered in the initial flow back of the stimulation fluid at Owen-3H. The Corporation experienced minimal operational delays as 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 immediate use at Owen-3H.

In November 2012, PetroFrontier began flow-testing operations on the Owen-3H well and after 20 days the well flowed back fluids approximately equal to the amount injected during stimulation and 90% of the amount lost during drilling. However, no hydrocarbons were recovered. As a result, the test was stopped and the well shut in pending a further review of the data obtained. During the hydraulic stimulation of this well, PetroFrontier utilized an advanced chemical tracer application to allow subsequent flow differentiation from each of the ten ports. The analysis of these tracer samples suggests the well encountered a highly permeable streak of fractures or vuggy porosity and it is possible that this was naturally connected to a formation water source or that the fracture stimulations connected it to a formation water source. Furthermore, no water was apparent on the logs in the Owen-2, the Owen-3 pilot

hole or the Owen-3H wells. A remedial work over program may be developed and risk assessed for implementation.

Baldwin-2Hst1 (EP 103)

During the hydraulic stimulation of the Baldwin-2Hst1 well, 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 approximately 4,500 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 in September 2012 and the Corporation and its partner are currently evaluating future plans for this well.

Outlook

As at December 31, 2012, the Corporation had a working capital surplus of $12,291,673 with no debt. The net exploration and evaluation asset expenditures incurred during the year ended December 31, 2012 totaled $14,945,160 relating primarily to drilling, completion and testing programs in the Southern Georgina Basin.

It has been a challenging year for most international junior oil and gas companies. The TSX Venture Exchange, where most Canadian junior resource stocks are listed, saw a significant drop in trading volumes last year, with the number of shares changing hands falling 32.8% and the overall value of those trades declining 44.5%.

Despite the challenging equity capital markets environment, many important and proactive steps were taken to improve the Corporation's financial and operational position:

- The Corporation executed a farm-in agreement with international global energy giantStatoil in June 2012.

- A series of private placements for gross proceeds of $10 million were closed in September 2012 following the $15 million bought deal termination in July 2012.

- The Corporation found evidence of oil in the Southern Georgina Basin, as supported by independent petrophysical analysis conducted on the MacIntyre-2 (EP 127) and Owen-3 (EP 104) wells and core laboratory analysis from the Owen-3H well.

Drawing on 2012 drilling, completions and testing results, the Corporation, Baraka and Statoil will continue to apply lessons learned from its operations while assessing the most efficient and cost effective way to further explore the Southern Georgina Basin assets in Phase 1 through a mutually agreed 2013 capital program. This program is currently being finalized and will be released once all partners and the Board of Directors have approved.

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. However, due to the termination of the bought deal financing in 2012, the Corporation will need to raise additional capital during 2013 in order

to satisfy the remainder of the 2013 Phase 1 joint exploration program under the Farm-in Agreement with Statoil.

Given the challenging state of the equity capital markets and the Corporation's recent operational results, the Board of Directors initiated a strategic review process in December 2012 with the view of enhancing shareholder value. In January 2013, PetroFrontier retained GMP Securities L.P. as its exclusive financial advisor to further assist the Corporation in identifying and evaluating a range of strategic alternatives, which could include a recapitalization of the Corporation, a merger or other business combination of the Corporation with another entity or the sale of the Corporation as a whole. There can be no assurance that the steps management is taking will be successful. PetroFrontier is continuing to review these strategic alternatives. Those parties interested in pursuing the strategic alternative process have signed confidentiality agreements and gained access to PetroFrontier's electronic data room. Due to the confidential nature of this process, PetroFrontier will not disclose developments with respect to this process unless a definitive agreement has been reached, as determined or required by law.

The Corporation's Annual General Meeting, originally scheduled for Wednesday December 12, 2012, was postponed and is expected to be held once the strategic alternative process is finalized.

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 2012	Q2 2012	Q3 2012	Q4 2012
Net loss	1,656,296	2,050,642	1,729,533	1,240,016
Per common share (basic and diluted)	0.03	0.03	0.03	0.02
Positive/(negative) cash flow from operations	(7,782,447)	1,390,495	7,083,525	(11,239,864)
Working capital	20,966,289	13,901,981	16,202,954	12,291,673
Total assets	129,466,691	136,575,185	154,592,491	137,659,359
Shareholders' equity	110,268,368	109,287,939	115,651,279	115,918,945

	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

Cash and cash equivalents

As at December 31, 2012, cash and cash equivalents totaled $3,944,537 as compared to $24,358,559 as at December 31, 2011, respectively. The decrease in cash and cash equivalents relates primarily to exploration and evaluation asset expenditures of $15,217,575 incurred during the year ended December 31, 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 December 31, 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:

	December 31, 2012	December 31, 2011
Cash at bank and on hand	3,944,537	11,774,340
Short-term deposits	-	12,584,219
Cash and cash equivalents	**3,944,537**	**24,358,559**

Restricted cash

As at December 31, 2012, restricted cash totaled $7,688,228 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:

	December 31, 2012 ($)	December 31, 2011 ($)
Operating and trust accounts	7,454,895	-
Other	233,333	-
Restricted cash	**7,688,228**	**-**

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 $45,506 for the year ended December 31, 2012 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, 2012 the Corporation recorded a gain on financial instruments of $150,631. As at December 31, 2012, the Corporation had no forward foreign currency exchange rate contracts outstanding.

Accounts Receivable

Accounts receivable increased from $1,400,005 at December 31, 2011 to $3,720,394 at December 31, 2012. The accounts receivable balance at December 31, 2012 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:

	December 31, 2012	December 31, 2011
Trade receivables	1,814,930	1,400,005
Joint venture receivables	1,905,464	-
Allowance for doubtful accounts	-	-
Accounts receivable	**3,720,394**	**1,400,005**

Prepaid Expenses and Deposits

Prepaid expenses and deposits increased from $666,998 at December 31, 2011 to $722,311 at December 31, 2012. 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, 2011 totaled $96,454,822 as compared to $112,614,425 at December 31, 2012. Exploration and evaluation asset expenditures incurred during the year ended December 31, 2012 totaled $15,217,575 and related primarily to drilling, completion and testing expenditures and costs incurred associated infrastructure expenditures to support these operations. These expenditures were offset slightly by research and development credits totaling $272,415 that were received by the Corporation during the year ended December 31, 2012. In addition, during 2011 the Corporation closed the Texalta acquisition resulting in an increase to exploration and evaluation assets of $59,009,550.

Acquisitions

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 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. 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 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, 2012. The recoverable amounts used to assess goodwill were determined using fair value less costs to sell. As at December 31, 2012 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, 2012	December 31, 2011
	($)	($)
Cost:		
Balance, January 1	8,946,231	-
Additions	-	9,773,469
Dispositions	-	(768,599)
Foreign currency translation	(28,457)	(58,639)
Balance, December 31	**8,917,774**	**8,946,231**
Accumulated impairment losses:		
At January 1	**-**	**-**
Impairment losses recognized in the year	**-**	**-**
Balance, December 31	**-**	**-**
Net book value at December 31	**8,917,774**	**8,946,231**

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at December 31, 2011 totaled $6,256,024 as compared to $3,787,574 at December 31, 2012. The decrease 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, 2012	December 31, 2011
Accrued liabilities	2,240,733	3,566,428
Trade payables	1,546,841	2,689,596
	3,787,574	**6,256,024**

Decommissioning Liabilities

Decommissioning liabilities at December 31, 2011 totaled $596,680 as compared to $1,742,709 at December 31, 2012. The increase in decommissioning liabilities at the end of the current year was due to the Corporation's drilling 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 a discount rate of 2.7% (2011 – 4.7% - 5.2%) to account for its decommissioning liabilities and an inflation rate of 2.2% (2011 – 3.6%) was used to inflate the costs.

During the year ended December 31, 2012, the Corporation recorded a loss on decommissioning liabilities of $31,867 relating to actual decommissioning liabilities expenditures that exceeded the estimated amounts recorded on the balance sheet.

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, 2012 and 2011:

	2012		**2011**	
Deferred income tax assets / (liabilities)	**Australia**	**Canada**	**Australia**	**Canada**
	($)	**($)**	**($)**	**($)**
Non-capital loss	18,433,687	740,071	13,109,455	439,423
Share issue costs	-	468,624	-	660,213
Exploration and evaluation assets and corporate assets	(33,560,696)	196,560	(29,162,205)	165,002
Unrecognized deferred tax assets	(1,083,122)	(1,405,255)	(209,109)	(1,264,638)
Total	**(16,210,131)**	**-**	**(16,261,859)**	**-**

The Corporation has temporary differences associated with its investments in foreign subsidiaries. As at December 31, 2012, the Corporation recorded a deferred tax liability of $16,210,131 in respect of these temporary differences.

The Corporation has non-capital losses as at December 31, 2012 of approximately $61.4 million (2011 - $42.8 million) in Australia which have no expiry and $3.0 million (2011 - $1.8 million) in Canada which expire between 2030 and 2032. The Corporation has share issue costs of approximately $1.9 million (2011 - $2.6 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, 2012 totaled $5,379,900 as compared to $3,851,616 for the year ended December 31, 2011. 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. 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	
	2012	**2011**
Salaries and benefits	2,997,206	2,350,276
Office costs	1,094,198	599,655
Professional fees	1,190,208	426,205
Corporate and regulatory	123,107	539,730
Other	-	19,005
Overhead recoveries	(24,819)	(83,255)
	5,379,900	**3,851,616**

Foreign Exchange Gain

The Corporation recorded a foreign exchange loss of $164,143 for the year ended December 31, 2012. The majority of the loss pertains to Australian dollar cash that was held by the parent Corporation throughout the year and services provided in Australia denominated in currencies other than the Australian dollar.

Share-Based Compensation

Share-based compensation expense for the year ended December 31, 2012 totaled $1,435,119 as compared to $4,902,076 for the year ended December 31, 2011. The substantial decrease in share-based compensation expense pertains to the fact that 4,259,167 stock options were outstanding at December 31, 2012 as compared to 5,396,668 at December 31, 2011. As well, 1,890,000 options were granted in 2011 as compared to only 500,000 in 2012. Furthermore, 1,619,501 options were forfeited in 2012 as compared to only 13,334 in 2011.

Depreciation

Depreciation expense for the year ended December 31, 2012 totaled $52,729 as compared to $25,651 for the year ended December 31, 2011. Overall, depreciation expense for the years ended December 31, 2012 and 2011 were as expected by management and the majority of the increase relates to depreciation of field vehicles and additional office equipment acquired during 2012.

Corporate Acquisition Costs

Corporate acquisition costs incurred for the year ended December 31, 2011 totaled $1,173,087 as compared to nil for the year ended December 31, 2012. 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, 2012 totaled $324,011 as compared to $491,399 for the year ended December 31, 2011. Overall, the finance income for the years ended December 31, 2012 and 2011 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, 2012 totaled $41,865 as compared to $23,025 for the year ended December 31, 2011. 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 $30,971 (2011 - $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, 2012 of $6,676,487 as compared to a net loss of $8,335,178 for the year ended December 31, 2011. 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, 2012 was $0.10 per share as compared to $0.15 per share for the year ended December 31, 2011.

Comprehensive Loss

The Corporation recorded a comprehensive loss for the year ended December 31, 2012 of $6,837,982 as compared to $8,381,196 for the year ended December 31, 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 year ended December 31, 2012, the Australian dollar relative to the Canadian dollar weakened from CAD $1.04 at December 31, 2011 to CAD $1.03 at December 31, 2012 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. For 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. 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, 2012	Year ended December 31, 2011
Basic and diluted[1]	**68,706,957**	**57,174,380**

[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 number of common shares outstanding at December 31, 2012 and 2011 were as follows:

	December 31, 2012	December 31, 2011
Common shares	79,400,768	63,998,153
Warrants	15,384,615	675,000
Options	4,259,167	5,396,668
Total common shares (diluted)	**99,044,550**	**70,069,821**

There were no changes to the diluted number of Common Shares outstanding as at the date of this MD&A.

As at December 31, 2012 the Corporation had $11,632,765 in cash and cash equivalents and restricted cash. The source of the Corporation's net working capital of $12,291,673 is a result of the private placement funds received in September 2012. The Corporation's net exploration and evaluation expenditures for the year of $14,945,160 consisted entirely of the Corporation's drilling, completion and testing 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. However, due to the termination of the bought deal financing in 2012, the Corporation will need to raise additional capital during 2013 in order to satisfy the remaining financial commitments associated with the Phase 1 joint exploration program under the Farm-in Agreement with Statoil. To this end, in January 2013 the Corporation retained GMP Securities L.P. to assist the Corporation in identifying and evaluating a range of strategic alternatives, which could include a recapitalization of the Corporation, a merger or other business combination of the Corporation with another entity or the sale of the Corporation as a whole. There can be no assurance that the steps management is taking will be successful.

The Corporation has 4,259,167 stock options and 15,384,615 warrants issued and outstanding as at December 31, 2012 at strike prices ranging from $0.25 to $3.60. However, the majority of these potentially dilutive securities were out-of-the-money at December 31, 2012 and at the date of this MD&A.

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, 2012 the Corporation recorded a gain on financial instruments of $150,631. As at December 31, 2012, the Corporation had no forward foreign currency exchange rate contracts outstanding.

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 as at December 31, 2012
Year 5	May 21, 2012	May 20, 2014	Drill one exploration well	Outstanding

EP 104 Minimum Work Plan Commitment

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

Year	Start	End	Minimum work requirements	Status as at December 31, 2012
Year 5	May 21, 2012	May 20, 2014	Drill one exploration well	Outstanding

EP 127 Minimum Work Plan Commitments

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

Year	Start	End	Minimum work requirements	Status as at December 31, 2012
Year 4	December 14, 2011	December 13, 2013	Acquire seismic data or drill a well	Outstanding
Year 5	December 14, 2012	December 13, 2014	Drill an exploration well	Outstanding

EP 128 Minimum Work Plan Commitments

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

Year	Start	End	Minimum work requirements	Status as at December 31, 2012
Year 3	June 14, 2010	December 13, 2013	Acquire seismic data	Outstanding
Year 4	December 14, 2011	June 13, 2014	Drill an exploration well	Outstanding
Year 5	June 14, 2013	June 13, 2015	Drill an exploration well	Outstanding

As at December 31, 2012, the Corporation had the following material contracts and commitments:

	Total	2013	2014	2015	2016	2017
EP 103 minimum commitments	**3,588,466**	3,588,466	-	-	-	-
EP 104 minimum commitments	**3,619,490**	3,619,490	-	-	-	-
EP 127 minimum commitments	**2,244,890**	383,438	1,861,452	-	-	-
EP 128 minimum commitments	**2,233,937**	372,483	1,861,452	1,861,452	-	-
Leases	**347,106**	287,618	59,488	-	-	-
	12,033,889	**8,251,495**	**3,782,392**	**1,861,452**	**-**	**-**

The actual future expenditures associated with satisfying the commitments for EP 103, EP 104, EP 127 and EP 128 could potentially be offset by the Corporation's Farm-in Agreement with Statoil. However, since Statoil does not have a working interest in the exploration permits as at December 31, 2012, the Corporation has included the entire amount of the commitments in the above table.

During the year ended December 31, 2012, the Corporation expensed $199,299 relating to operating leases it maintained throughout the year.

As at December 31, 2012, through the normal course of business the Corporation had an outstanding dispute with a third party service provider that in aggregate totaled $1,270,070. In management's opinion these charges are unsubstantiated and therefore have not been accrued.

Segmented Information

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

	Year ended December 31, 2012		Year ended December 31, 2011	
	Canada	**Australia**	**Canada**	**Australia**
EXPENSES				
General and administrative	2,122,723	3,257,177	1,519,121	2,332,495
Loss on marketable securities	45,506	-	7,935	-
Foreign exchange gain	153,754	10,389	(124,874)	-
Financial derivative instruments	(150,631)	-	(221,966)	-
Share-based compensation	1,435,119	-	4,902,076	-
Depreciation	915	51,814	1,211	24,440
Loss on decommissioning liabilities	31,867	-	-	-
Corporate acquisition costs	-	-	1,173,087	-
Results from operating activities	**3,639,253**	**3,319,380**	**7,256,590**	**2,356,935**
Finance income	103,926	220,085	438,553	52,846
Finance costs	(1,249)	(40,616)	(2,784)	(20,241)
Net finance income	**102,677**	**179,469**	**435,769**	**32,605**
Net loss before taxes	(3,536,576)	(3,139,911)	(6,820,821)	(2,324,330)
Deferred tax recovery	-	-	768,599	-
Net loss from continuing operations	(3,536,576)	(3,139,911)	(6,052,222)	(2,324,330)
Net earnings from discontinued operations			41,374	-
NET LOSS	**(3,536,576)**	**(3,139,911)**	**(6,010,848)**	**(2,324,330)**
Exploration and evaluation assets (end of year)	-	112,614,425	-	96,454,822
Exploration and evaluation expenditures (net)	-	14,945,160	-	26,630,986
Total assets (end of year)	1,983,777	135,675,582	26,508,372	107,990,300

Compensation of Key Management Personnel

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

	Year ended December 31	
	2012	**2011**
Salaries, directors fees and other benefits	863,239	1,013,932
Severance	-	280,000
Share-based compensation	1,421,246	3,094,813
	2,284,485	**4,388,745**

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, 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 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, 2012, Rodinia charged $554,192 of ASA expense, respectively. Included in accounts payable as at December 31, 2012, is a $64,136 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.

(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, 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.

History of Losses

The Corporation has historically incurred losses from operations. As at December 31, 2012, the Corporation had a cumulative deficit of $20,826,732. There can be no assurance that the Corporation will achieve profitability in the future. In addition, should the Corporation be unable to continue as a going concern, realization of assets and settlement of liabilities other than in the normal course of business may be at amounts significantly different from those in the financial statements.

Cash Flow from Operations

The cash flow used in operations of the Corporation for the period ended December 31, 2012 was $10,548,291. 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.