



**PetroFrontier**

Management's Discussion & Analysis  
for the three months ended  
March 31, 2013

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

*PetroFrontier Corp.*

*March 31, 2013*

PetroFrontier Corp. (the “Corporation” or “PetroFrontier”) 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 period ended March 31, 2013. 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, 2012 and 2011 and the reviewed consolidated interim financial statements for the three months ended March 31, 2013. 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.

The Corporation's Audit Committee has reviewed and approved the consolidated interim financial statements and MD&A, both of which are effective May 28, 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”.

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### **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<sup>2</sup>) and EPA 252 (2,273 km<sup>2</sup>) in the western part of the Southern Georgina Basin, Northern Territory, Australia totaling 3,800 km<sup>2</sup> 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.

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### **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**

Drawing on the 2012 drilling, completions and testing results, the Corporation and its partners have been evaluating the most cost effective manner in which to deploy the balance of the Phase 1 capital for further exploration in the Southern Georgina Basin in 2013. The Corporation and its partners are also fully evaluating future costs for the mobilization and continued testing program at MacIntyre-2H (EP 127) and the remedial work over programs necessary at Owen-3H (EP 104) and Baldwin-2Hst1 (EP 103).

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Throughout the first quarter of 2013 the operations team in Adelaide, Australia has been moving forward with the operational planning process which includes regulatory work plan commitment approvals, landowner access agreements with the Central Lands Council, contractor proposals and legal contacts for the pending implementation of the 2013 capital exploration program. The announcement of this program has been delayed due to the current ongoing status of the strategic review process.

### **Outlook**

As at March 31, 2013, the Corporation had a working capital surplus of \$11,326,337 with no debt. The net exploration and evaluation asset expenditures incurred during the three months ended March 31, 2013 totaled \$35,129 relating primarily to long lead item expenditures and planning costs associated with the Corporation's upcoming 2013 capital expenditure program in the Southern Georgina Basin.

During the first quarter of 2013, the Corporation's senior management and Board of Directors have been actively evaluating a number of opportunities arising from its formal strategic review process, as announced in early January 2013. Due to the confidential nature of this process, PetroFrontier will not disclose developments with respect to this process until a definitive agreement has been reached, as determined or required by law. Those parties interested have signed confidentiality agreements, reviewed the electronic data room and have been provided with detailed technical presentations by the Corporation's senior management team.

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.

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### 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.

	<b>Q1 2013</b>	<b>Q4 2012</b>	<b>Q3 2012</b>	<b>Q2 2012</b>
Net loss	1,383,517	1,240,016	1,729,533	2,050,642
Per common share (basic and diluted)	0.02	0.02	0.03	0.03
Positive/(negative) cash flow from operations	(2,454,110)	(11,239,864)	7,083,525	1,390,495
Working capital	11,326,337	12,291,673	16,202,954	13,901,981
Total assets	138,356,483	137,659,359	154,592,491	136,575,185
Shareholders' equity	117,826,766	115,918,945	115,651,279	109,287,939
	<b>Q1 2012</b>	<b>Q4 2011</b>	<b>Q3 2011</b>	<b>Q2 2011</b>
Net loss	1,656,296	1,687,928	2,041,095	2,906,028
Per common share (basic and diluted)	0.03	0.03	0.03	0.05
Positive/(negative) cash flow from operations	(7,782,447)	1,687,036	(926,003)	(703,870)
Working capital	20,966,289	22,663,020	34,941,213	38,405,486
Total assets	129,466,691	134,498,673	134,200,160	133,538,771
Shareholders' equity	110,268,368	111,384,110	111,778,047	112,903,757

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.

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.

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### *Cash and cash equivalents*

As at March 31, 2013, cash and cash equivalents totaled \$8,015,395, as compared to \$3,944,537 as at December 31, 2012, respectively. The increase in cash and cash equivalents relates primarily to amounts being transferred from restricted cash to cash and cash equivalents during the current quarter, offset by general and administrative expenses, exploration and evaluation asset expenditures and the payment of outstanding accounts payable and accrued liabilities outstanding as at December 31, 2012. The source of the majority of the Corporation's funds as at March 31, 2013 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:

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
	(\$)	(\$)
Cash at bank and on hand	8,015,395	3,944,537
Cash and cash equivalents	<b>8,015,395</b>	<b>3,944,537</b>

### *Restricted cash*

As at March 31, 2013, restricted cash totaled \$1,309,029 as compared to \$7,688,228 as at December 31, 2012, 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:

	<b>March 31,</b>	<b>December 31,</b>
	<b>2013</b>	<b>2012</b>
	(\$)	(\$)
Operating and trust accounts	1,069,631	7,454,895
Other	239,398	233,333
Restricted cash	<b>1,309,029</b>	<b>7,688,228</b>

### *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 gain of \$1,390 for the three months ended March 31, 2013 on this marketable security as compared to a loss of \$16,509 for the three months ended March 31, 2012.

### *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.

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### Accounts Receivable

Accounts receivable decreased from \$3,720,394 at December 31, 2012 to \$3,296,240 at March 31, 2013. The accounts receivable balances at March 31, 2013 and December 31, 2012 related primarily to Australian investment tax credits on the Corporation's qualifying expenditures, which are typically received in the subsequent quarter and joint venture receivables. The following tables summarize the Corporation's accounts receivable:

	March 31, 2013	December 31, 2012
	(\$)	(\$)
Trade receivables	1,343,469	1,814,930
Joint venture receivables	1,952,771	1,905,464
Allowance for doubtful accounts	-	-
<b>Accounts receivable</b>	<b>3,296,240</b>	<b>3,720,394</b>

### Prepaid Expenses and Deposits

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

	March 31, 2013	December 31, 2012
	(\$)	(\$)
Deposits on capital expenditures (i)	689,828	631,687
Rent, insurance and other (ii)	112,338	90,624
<b>Prepaid expenses and deposits</b>	<b>802,166</b>	<b>722,311</b>

- (i) Prepaid expenses and deposits increased from \$722,311 at December 31, 2012 to \$802,166 at March 31, 2013. As at March 31, 2013, the Corporation had \$540,000 (Australian dollars) on deposit with 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 in due course.
- (ii) The Corporation had three term deposits outstanding as at March 31, 2013 that mature on August 31, 2013. The remainder of the prepaid expenses and deposits balance relates to prepaid insurance, rent and other miscellaneous general and administrative related expenses.

### Exploration and Evaluation Assets

Exploration and evaluation assets at December 31, 2012 totaled \$112,614,425 as compared to \$115,730,941 at March 31, 2013. Exploration and evaluation asset expenditures incurred during the three months ended March 31, 2013 totaled \$35,129 and related primarily to long lead item expenditures and planning costs associated with the Corporation's upcoming 2013 capital expenditure program in the Southern Georgina Basin. The remainder of the increase in exploration and evaluation assets relates entirely to foreign exchange translation.



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### Goodwill

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

As part of the Corporation's disposition of all of its Canadian petroleum and natural gas properties discussed above, goodwill was reduced by \$768,599, which represented the amount of goodwill allocated to these assets upon acquisition pursuant to the Corporation's plan of arrangement with Teralta 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. There were no new indicators of impairment as at March 31, 2013 and as such the goodwill was not assessed for impairment at that time.

The following table summarizes the Corporation's goodwill:

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

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### *Accounts Payable and Accrued Liabilities*

Accounts payable and accrued liabilities at March 31, 2013 totaled \$2,101,660 as compared to \$3,787,574 at December 31, 2012. The decrease in accounts payable at the end of the current quarter was due to low activity levels relating to drilling and seismic operations as at March 31, 2013 in comparison to December 31, 2012. The following tables summarize the Corporation's accounts payable and accrued liabilities:

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
	(\$)	(\$)
Accrued liabilities	1,155,462	2,240,733
Trade payables	946,198	1,546,841
	<b>2,101,660</b>	<b>3,787,574</b>

### *Decommissioning Liabilities*

Decommissioning liabilities at December 31, 2012 totaled \$1,742,709 as compared to \$1,796,582 at March 31, 2013. The Corporation used a discount rate of 2.7% to account for its decommissioning liabilities and an inflation rate of 2.2% was used to inflate the costs.

### *Deferred Tax Liability*

As at March 31, 2013, the Corporation has recorded a deferred tax liability of \$16,631,475 as part of the acquisition of Teralta.

### *General and Administrative Expense*

General and administrative ("G&A") expense for the three months ended March 31, 2013 totaled \$1,252,300 as compared to \$978,190 for the three months ended March 31, 2012. 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, which resulted in increased payroll, office supplies and rent associated with the higher staffing levels. Toward the end of the first quarter of 2013 the Corporation moved its Adelaide office location in order to help reduce operating overhead costs.

### *Foreign Exchange Gain/Loss*

The Corporation recorded a foreign exchange loss of \$13,504 for the three months ended March 31, 2013 as compared to a gain of \$122,469 for the three months ended March 31, 2012. The gain 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 months ended March 31, 2013 totaled \$130,884 as compared to \$874,828 for the three months ended March 31, 2012. The decrease in share-based compensation expense pertains to the fact that 4,165,834 stock options were outstanding at March 31, 2013 as compared to 5,718,333 at March 31, 2012. In addition, no options were granted during the three months ended March 31, 2013 as compared to 500,000 options that were granted during the three months ended March 31, 2012.

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### *Depreciation*

Depreciation expense for the three months ended March 31, 2013 totaled \$14,451 as compared to \$12,674 for the three months ended March 31, 2012. Overall, depreciation expense for the three months ended March 31, 2013 and 2012 were as expected by management and the majority of the increase relates to depreciation of field vehicles and additional office equipment acquired during 2012 and the first quarter of 2013.

### *Finance income*

Finance income for the three months ended March 31, 2013 totaled \$39,453 as compared to \$92,488 for the three months ended March 31, 2012. Overall, the finance income for the three months ended March 31, 2013 and 2012 were as expected by management given the levels of cash on hand during the respective quarters.

### *Finance costs*

Finance costs for the three months ended March 31, 2013 totaled \$13,221 as compared to \$7,130 for the three months ended March 31, 2012. Overall, the finance costs for the comparable years were as expected by management given the levels of banking activity. Also included in the current quarter total is accretion expense of \$11,047, 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 months ended March 31, 2013 of \$1,383,517 as compared to a net loss of \$1,656,296 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 months ended March 31, 2013 was \$0.02 per share as compared to \$0.03 per share for the same period in the prior year.

### *Comprehensive Loss*

The Corporation recorded comprehensive earnings for the three months ended March 31, 2013 of \$1,776,936 as compared to a comprehensive loss of \$1,990,570 for the three months ended March 31, 2012. 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 subsidiaries' assets and liabilities in accordance with the Corporation's accounting policy on foreign exchange gains and losses. During the three months ended March 31, 2013, the Australian dollar relative to the Canadian dollar strengthened from CAD \$1.034 at December 31, 2012 to CAD \$1.059 at March 31, 2013 resulting in a gain on the conversion of the Corporation's Australian assets net of a loss incurred on the conversion of the Corporation's Australian liabilities. For the three months ended March 31, 2012, the Australian dollar relative to the Canadian dollar weakened slightly from CAD \$1.037 at December 31, 2011 to CAD

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\$1.035 at March 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.

### Common share information

#### Weighted average outstanding common shares

	Three months ended March 31, 2013	Three months ended March 31, 2012
<b>Basic and diluted<sup>(1)</sup></b>	<b>79,400,768</b>	<b>63,998,153</b>

<sup>(1)</sup> 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 March 31, 2013 and December 31, 2012 were as follows:

	March 31, 2013	December 31, 2012
Common shares	79,400,768	79,400,768
Warrants	15,384,615	15,384,615
Options	4,165,834	4,259,167
<b>Total common shares (diluted)</b>	<b>98,951,217</b>	<b>99,044,550</b>

As at March 31, 2013, the Corporation had \$9,324,424 in cash and cash equivalents and restricted cash. The source of the Corporation's net working capital of \$11,326,337 is a result of the private placement funds received in September 2012. The Corporation's exploration and evaluation expenditures for the three months ended March 31, 2013 of \$35,129 related primarily to long lead item expenditures associated with the Corporation's upcoming 2012 capital expenditure program in the Southern 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 amongst other options, 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 4,165,834 stock options and 15,384,615 warrants issued and outstanding as at March 31, 2013 at strike prices ranging from \$0.25 to \$3.60. However, the majority of these potentially dilutive securities were out-of-the-money at March 31, 2013 and at the date of this MD&A.

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### 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 March 31, 2013
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 March 31, 2013
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 March 31, 2013
Year 4	December 14, 2011	December 13, 2014	Acquire seismic data or drill a well	Outstanding
Year 5	December 14, 2012	December 13, 2015	Drill an exploration well	Outstanding

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### 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 March 31, 2013
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

After satisfying the five year minimum work requirements for each of the exploration permits, the acreage is subject to relinquishment provisions. However, each of the exploration permits can enter into up to two additional five year work terms subject to the Corporation successfully renegotiating new minimum work requirements with the Northern Territory government.

### 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.

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

	<b>Total</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
EP 103 minimum commitments	<b>3,712,289</b>	3,712,289	-	-	-	-
EP 104 minimum commitments	<b>3,752,741</b>	3,752,741	-	-	-	-
EP 127 minimum commitments	<b>2,303,241</b>	-	393,405	1,909,836	-	-
EP 128 minimum commitments	<b>4,944,020</b>	1,124,348	1,909,836	1,909,836	-	-
Leases	<b>309,866</b>	248,832	61,034	-	-	-
	<b>15,022,157</b>	<b>8,838,210</b>	<b>2,364,275</b>	<b>3,819,672</b>	-	-

During the three months ended March 31, 2013, the Corporation expensed \$96,917 relating to operating leases it maintained throughout the year.

As at March 31, 2013, through the normal course of business the Corporation had an outstanding dispute with a third party service provider that in aggregate totaled \$1,303,083. In management's opinion these charges are unsubstantiated and therefore have not been accrued.

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### Segmented Information

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

	Three months ended March 31, 2013		Three months ended March 31, 2012	
	Canada	Australia	Canada	Australia
	(\$)	(\$)	(\$)	(\$)
<b>EXPENSES</b>				
General and administrative	439,063	813,237	406,720	571,470
(Gain)/loss on marketable securities	(1,390)	-	16,509	-
Foreign exchange gain	(63)	13,567	(122,469)	-
Financial derivative instruments (note 11)	-	-	(18,078)	-
Share-based compensation (note 9)	130,884	-	874,828	-
Depreciation	211	14,240	117	12,557
Results from operating activities	568,705	841,044	1,157,627	584,027
Finance income	3,058	36,395	46,520	45,968
Finance costs	(202)	(13,019)	(466)	(6,664)
Net finance income	2,856	23,376	46,054	39,304
<b>NET LOSS</b>	<b>(565,849)</b>	<b>(817,668)</b>	<b>(1,111,573)</b>	<b>(544,723)</b>
Exploration and evaluation assets (end of period)	-	115,730,941	-	97,034,305
Exploration and evaluation expenditures	-	35,129	-	808,930
Total assets (end of period)	1,503,197	136,853,286	17,733,641	111,733,050
Total liabilities (end of period)	158,775	20,370,942	651,122	18,547,201



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### **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 March 31, 2013. 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 consolidated interim financial statements. For the three months ended March 31, 2013, the Corporation was charged \$126,616 of ASA expense. As at March 31, 2013, \$75,836 was 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**

On January 1, 2013, the Corporation adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7). The adoption of these standards had no impact on the amounts recorded in the financial statements as at January 1, 2013 or on the comparative periods.

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The Corporation has adopted the amendments to IAS 1, Presentation of Financial Statements which require the Corporation to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

### **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

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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 March 31, 2013, the Corporation had a cumulative deficit of \$22,210,249. 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.

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### *Cash Flow from Operations*

The cash flow used in operations of the Corporation for the period ended March 31, 2013 was \$2,454,110. 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.

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### *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

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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.

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### *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.

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### *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.



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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

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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](http://www.sedar.com) or from the Corporation's website at [www.petrofrontier.com](http://www.petrofrontier.com) or by contacting the Corporation at PetroFrontier Corp., Suite 320, 715 – 5th Avenue S.W., Calgary, Alberta T2P 2X6.