PetroFrontier

Management's Discussion & Analysis

December 31, 2013 and 2012

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

PetroFrontier Corp.
December 31, 2013

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, 2013 and 2012 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 24, 2014.

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".

Statoil Farm-In

On June 10, 2013, the Corporation entered into an agreement to amend the existing farm-in agreement with Statoil Australia Oil & Gas AS ("Statoil") (the "Amended Farm-in Agreement"). Pursuant to the Amended Farm-in Agreement, Statoil has been transferred 80% of the Corporation's working interests in EP 103, EP 104, EP 127 and EP 128 and in EPA 213 and EPA 252 in exchange for exploration program related payments and carried costs of up to US$175.0 during the earning period ending in 2016. The Amended Farm-in Agreement redefined the previously agreed work phases and Statoil's corresponding

capital expenditure commitments, which under the Amended Farm-in Agreement are additional to the approximately $15 million spent by Statoil in 2012, as follows:

<u>Phase 1 & 2A (2013 and 2014):</u>

- Statoil will spend US$50 million on exploration (PetroFrontier – nil) and assumed operatorship on September 1, 2013
- At the end of Phase 2A, Statoil will have the option to continue to Phase 2B; if Statoil elects not to continue, it must return to PetroFrontier 50% of its former working interest in the Permits, such that ownership will then be: Statoil (30%), PetroFrontier (70%)

<u>Phase 2B (2015):</u>

- Upon proceeding to Phase 2B, Statoil will spend the next US$30 million on exploration (PetroFrontier – nil)
- At the end of Phase 2B, Statoil will have the option to continue to Phase 3; if Statoil elects not to continue to Phase 3, then it must return to PetroFrontier 25% of its former working interest in the Permits, such that ownership will then be Statoil (55%), PetroFrontier (45%)

<u>Phase 3 (2016):</u>

- Upon proceeding to Phase 3, Statoil will spend the next US$80 million on exploration (PetroFrontier – nil)
- At the end of Phase 3, Statoil will own 80% and PetroFrontier will own 20% of PetroFrontier's former working interest in the Permits

At the end of Phase 3, Statoil will have completed its funding obligations under the Amended Farm-in Agreement and the sharing of future costs between Statoil and PetroFrontier will be based on their then respective ownership interests.

Subsequent events

Subsequent to December 31, 2013, the Corporation announced that the Joint Venture Operating Committee had approved the 2014 Work Program and Budget (the "2014 WP&B"). The 2014 WP&B includes the drilling of up to five vertical exploration wells. All wells will include an extensive coring and open hole evaluation program and up to three of the wells will be hydraulically fractured and production tested.

Baraka Energy & Resources Ltd ("Baraka"), a 25% working interest owner in EP 127 and EP128 is disputing the 2014 WP&B on these blocks. The Corporation does not see merit in Baraka's objections and the Corporation is keen to move forward with the 2014 WP&B. The joint operating agreements ("JOA") among the parties do provide for the potential dilution of Baraka's 25% working interest should it refuse to pay its cash calls. Statoil and PetroFrontier together hold 75% of the working interest and have voted to approve the 2014 WP&B in accordance with the JOA. The outcome of this dispute could result in amendments to the 2014 WP&B, but are not expected to have a material impact on the overall technical results of the 2014 WP&B and information gathered.

Outlook

On January 7, 2014, the Corporation announced that the Joint Venture Operating Committee had approved the 2014 WP&B. The 2014 WP&B includes the drilling of up to five vertical exploration wells. All wells will include an extensive coring and open hole evaluation program and up to three of the wells will be hydraulically fractured and production tested. The Corporation is very keen to move forward and further test the oil production potential of the Southern Georgina Basin, which the 2014 WP&B will provide for in a capital efficient way.

On April 2, 2014, the Corporation announced that the first well in its 2014 WP&B had commenced drilling. The OzAlpha-1 well is a vertical exploration well located approximately 50 km south west of the Owen-3 well on Exploration Permit 104. Statoil is progressing the program as approved by the Joint Operating Committee and procurement of completions and testing services is moving ahead with stimulation and testing operations expected to commence in Q3 2014. Road and lease construction for the second well, OzBeta-1 is also underway and progressing on schedule.

Also included in the Amended Farmin Agreement is Statoil's commitment to bear the cost of abandonment and reclamation of surface lands as well as the existing three wells at no cost to PetroFrontier. These operations are also planned for 2014 to capture operational and cost efficiencies. Statoil (the "operator") does not believe material new information will be obtained from testing the Macintyre-2H well, as the presence of H2S is believed to be an indication of water in the wellbore area, as was seen in the Owen-3H well. The new wells have been selected to avoid vertical faulting, which is believed to be the primary cause of water and with it, H2S, at the Owen-3H and Macintyre-2H wells. The Baldwin-2Hst1 well with its casing failure is considered by the operator to warrant permanent abandonment.

Management remains committed to enhancing shareholder value and has significantly reduced general and administrative costs going forward with the closing of its Adelaide operations office now that Statoil has assumed operatorship and an overall reduction in the Corporation's head office general and administrative costs. In addition, the Corporation will continue to evaluate opportunities both domestically and internationally.

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 2013	**Q2 2013**	**Q3 2013**	**Q4 2013**
Net loss	1,383,517	54,787,185	1,483,345	526,458
Per common share (basic and diluted)	0.02	0.69	0.02	-
Positive/(negative) cash flow from operations[1]	(2,454,110)	332,753	1,839,341	(3,424,578)
Working capital	11,326,337	9,622,852	8,165,835	7,506,121
Total assets	138,356,483	57,174,839	55,617,100	52,869,964
Shareholders' equity	117,826,766	54,027,276	52,366,483	51,869,964

	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[1]	(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

[1] Cash flow from (used in) operating activities after changes in non-cash working capital

The Corporation is in the exploration phase and therefore there are 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 impairment expense (non-cash), 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 was 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 was from the private placement financing that closed in December 2010 for gross proceeds of $58,500,000.

Cash and cash equivalents

As at December 31, 2013, cash and cash equivalents totaled $7,459,605 as compared to $3,944,537 as at December 31, 2012, respectively. The increase in cash and cash equivalents relates primarily to the transfer of $7,688,228 from restricted cash to cash and cash equivalents offset by general and administrative expenses incurred during the current year. The following table summarizes the Corporation's cash and cash equivalents:

	December 31, 2013 ($)	**December 31, 2012 ($)**
Cash at bank and on hand	7,459,605	3,944,537
Cash and cash equivalents	**7,459,605**	**3,944,537**

Restricted cash

As at December 31, 2012, restricted cash totaled $7,688,228 as compared to nil as at December 31, 2013, respectively. The following table summarizes the Corporation's restricted cash:

	December 31, 2013 ($)	**December 31, 2012 ($)**
Operating and trust accounts (ii)	-	7,454,895
Other (ii)	-	233,333
Restricted cash	**-**	**7,688,228**

(i) The Corporation had established various operating and trust accounts to effectively manage and ensure the timely payment of capital expenditures for the joint ventures it operated. The amounts deposited into these various accounts were considered restricted to the operations of the joint ventures. As at December 31, 2013, the Corporation was no longer required to maintain these operating and trust accounts because Statoil assumed operatorship of the joint ventures on September 1, 2013.

(ii) The Corporation had no term deposits outstanding as at December 31, 2013 and three term deposits outstanding as at December 31, 2012.

Marketable Securities

Through the acquisition of Texalta the Corporation acquired 1,217,429 common shares of Hearth Heat Resources Ltd., which changed its name to Ramparts Energy Limited, a publically traded company listed on the Australian Securities Exchange. The Corporation recorded a mark to market gain of $60,942 for the year ended December 31, 2013 on this marketable security compared to a loss of $45,506 for the year ended December 31, 2012.

Financial Instruments

The fair value of cash and cash equivalents, term deposits, restricted cash, 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, 2013 and 2012, the Corporation had no forward foreign currency exchange rate contracts outstanding.

Accounts Receivable

Accounts receivable decreased from $3,720,394 at December 31, 2012 to $1,595,084 at December 31, 2013. The primary decrease in the accounts receivable balance at December 31, 2013 as compared to December 31, 2012 relate entirely to joint venture receivables. As at December 31, 2013, the Corporation no longer had any joint venture receivables because Statoil assumed operatorship of the joint ventures on September 1, 2013.

The remainder of the majority of the Corporation's accounts receivable pertains to Australian investment tax credits on the Corporation's qualifying expenditures, which are typically received in the subsequent quarter. The following tables summarize the Corporation's accounts receivable:

	December 31, 2013 ($)	**December 31, 2012 ($)**
Trade receivables	1,595,084	1,814,930
Joint venture receivables		1,905,464
Allowance for doubtful accounts	-	-
Accounts receivable	**1,595,084**	**3,720,394**

Prepaid Expenses and Deposits

Prepaid expenses and deposits decreased from $722,311 at December 31, 2012 to $38,350 at December 31, 2013. The balance recorded in prepaid expenses as at December 31, 2012 related 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. As at December 31, 2013, the Corporation no longer maintained any environmental and abandonment deposits with the Northern Territory government because Statoil assumed operatorship of the joint ventures on September 1, 2013. In addition, $100,000 (Australian) was paid as a deposit in conjunction with the Baraka Farmin Agreements and it was returned to the Corporation during the year ended December 31, 2013. The remainder of the prepaid expenses and deposits balance relates to prepaid insurance and rent.

Impairment

	Year ended December 31, 2013 ($)	Year ended December 31, 2012 ($)
Impairment of goodwill	9,149,570	-
Impairment of exploration and evaluation assets	59,339,012	-
	68,488,582	**-**

The Corporation's goodwill at December 31, 2013 has been assessed for impairment. All of the Corporation's goodwill has been impaired. The execution of the Amended Farm-in Agreement with Statoil indicated that the aggregated carrying value of the goodwill exceeded the fair value less costs to sell. Accordingly, impairment of $9,149,570 was recorded for the year ended December 31, 2013 (year ended December 31, 2012 - nil).

The Corporation's exploration and evaluation assets at December 31, 2013 have been assessed for impairment. The execution of the Amended Farm-in Agreement with Statoil indicated that the aggregated carrying value of the Corporation's exploration and evaluation assets exceeded the fair value less costs to sell. Accordingly, impairment of $59,339,012 was recorded for the year ended December 31, 2013 (year ended December 31, 2012 - nil).

The impairment recorded as a result of the execution of the Amended Farm-in Agreement with Statoil represents a Level 3 fair value measurement.

Exploration and Evaluation Assets

Exploration and evaluation assets at December 31, 2012 totaled $112,614,425 as compared to $43,712,206 at December 31, 2013. The execution of the Amended Farm-in Agreement with Statoil indicated that the aggregated carrying value of the Corporation's exploration and evaluation assets exceeded the fair value less costs to sell. Accordingly, impairment of $59,339,012 was recorded. Exploration and evaluation asset expenditures incurred during the year ended December 31, 2013 totaled negative $10,003 due to capital over accruals in the prior year as compared to additions of $14,945,160 incurred during the year ended December 31, 2013. The remainder of the decrease in exploration and evaluation assets relates entirely to foreign exchange translation.

Goodwill

The following table summarizes the Corporation's goodwill:

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

Goodwill was assessed for impairment as at December 31, 2013. The execution of the Amended Farm-in Agreement indicated that the aggregated carrying value of the goodwill exceeded the fair value less costs to sell. Accordingly, impairment of $9,149,570 was recorded.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at December 31, 2013 totaled $1,651,637 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 lower activity levels relating to drilling and seismic operations as at December 31, 2013 in comparison to December 31, 2012. The following tables summarize the Corporation's accounts payable and accrued liabilities:

	December 31, 2013	December 31, 2012
Accrued liabilities	281,463	2,240,733
Trade payables	1,370,174	1,546,841
	1,651,637	**3,787,574**

Decommissioning Liabilities

Decommissioning liabilities at December 31, 2012 totaled $1,742,709 as compared to nil at December 31, 2013. The Corporation has estimated that the total undiscounted amount of cash flows required to settle its decommissioning liabilities at December 31, 2013 was nil (December 31, 2012 - $1,830,571). In accordance with the Amended Farm-in Agreement with Statoil, the Corporation is no longer financially obligated for the decommissioning liabilities associated with these assets. Changes to the decommissioning liabilities were as follows:

	December 31, 2013	December 31, 2012
	($)	($)
Balance, beginning of period	**1,742,709**	596,680
Liabilities incurred	-	419,436
Liabilities settled	-	(96,000)
Revision to estimates	(1,763,770)	791,622
Accretion	21,061	30,971
Balance, end of year	**-**	**1,742,709**

Deferred Tax Liability

The following is a summary of the Corporation's deferred tax liability as at December 31, 2013 and 2012:

	2013		2012	
Deferred income tax assets / (liabilities)	Australia ($)	Canada ($)	Australia ($)	Canada ($)
Non-capital loss	16,954,893	1,482,947	18,433,687	740,071
Share issue costs	-	256,959	-	468,624
Exploration and evaluation assets and corporate assets	(13,333,284)	6,396	(33,560,696)	196,560
Gain on marketable securities	-	(15,236)	-	-
Unrecognized deferred tax assets	(3,621,609)	(1,731,066)	(1,083,122)	(1,405,255)
Total	**-**	**-**	**(16,210,131)**	**-**

The Corporation has non-capital losses as at December 31, 2013 of approximately $59.5 million (2012 - $61.4 million) in Australia, which have no expiry and $5.9 million (2012 - $3.0 million) in Canada, which expire between 2030 and 2033. The Corporation has share issue costs of approximately $1.0 million (2012 - $1.9 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, 2013 totaled $4,425,571 as compared to $5,379,900 for the year ended December 31, 2012. The decrease in general and administrative expense relates to decreased staffing levels as a result of less operating activities in the current year in comparison to the prior year. In addition, toward the end of the first quarter of 2013 the Corporation moved its Adelaide office location in order to help reduce operating overhead costs and the Corporation's Adelaide office was closed at the end of August 2013 as a result of Statoil assuming operatorship on September 1, 2013.

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

	Year ended December 31	
	2013	**2012**
Salaries and benefits	2,786,183	2,997,206
Office costs	251,254	1,094,198
Professional fees	1,288,166	1,190,208
Corporate and regulatory	80,075	123,107
Other	35,316	-
Overhead recoveries	-	(24,819)
	4,440,994	**5,379,900**

Foreign Exchange Gain

The Corporation recorded a foreign exchange gain of $11,088 for the year ended December 31, 2013 as compared to a loss of $164,143 for the year ended December 31, 2012. The majority of the gain/loss pertains to Australian dollar cash that was held by the parent Corporation throughout the year and services provided in Australia that were denominated in currencies other than the Australian dollar.

Share-Based Compensation

Share-based compensation expense for the year ended December 31, 2013 totaled $520,994 as compared to $1,435,119 for the year ended December 31, 2012. The substantial decrease in share-based compensation expense pertains to the fact that although 3,920,000 stock options were granted during the current year as compared to only 500,000 in 2012, the fair values of the options granted were $0.16 and $1.54, respectively thus resulting in lower share-based compensation expense for the year ended December 31, 2013 in comparison to the prior year.

Depreciation

Depreciation expense for the year ended December 31, 2013 totaled $56,057 as compared to $52,729 for the year ended December 31, 2012. Overall, depreciation expense for the years ended December 31, 2013 and 2012 were as expected by management and are comparable year-over-year.

Finance income

Finance income for the year ended December 31, 2013 totaled $194,324 as compared to $324,011 for the year ended December 31, 2012. Overall, the finance income for the years ended December 31, 2013 and 2012 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, 2013 totaled $31,012 as compared to $41,865 for the year ended December 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 year total is accretion expense of $21,061 (2012 - $30,971), 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, 2013 of $58,180,505 as compared to a net loss of $6,676,487 for the year ended December 31, 2012. As the Corporation is in the exploration phase, there are 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 impairment expense (non-cash), 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, 2013 was $0.73 per share as compared to $0.10 per share for the year ended December 31, 2012.

Comprehensive Loss

The Corporation recorded a comprehensive loss for the year ended December 31, 2013 of $65,257,612 as compared to $6,837,982 for the year ended December 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 assets and liabilities in accordance with the Corporation's accounting policy on foreign exchange gains and losses. During the year ended December 31, 2013, the Australian dollar relative to the Canadian dollar weakened from CAD $1.034 at December 31, 2012 to CAD $0.949 at December 31, 2013 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. During the year ended December 31, 2012, the Australian dollar relative to the Canadian dollar weakened from CAD $1.037 at December 31, 2011 to CAD $1.034 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.

Common share information

Weighted average outstanding common shares

	Year ended December 31, 2013	Year ended December 31, 2012
Basic and diluted[1]	**79,428,165**	**68,706,957**

[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, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012
Common shares	79,600,768	79,400,768
Warrants	15,384,615	15,384,615
Options	7,634,167	4,259,167
Total common shares (diluted)	**102,619,550**	**99,044,550**

As at the date of this MD&A, the diluted number of Common Shares outstanding decreased to 102,234,550 as a result of 80,000 stock options that were forfeited and 305,000 options that expired unexercised out-of-the-money.

As at December 31, 2013, the Corporation had $7,459,605 in cash and cash equivalents. The source of the Corporation's net working capital of $7,506,121 was a result of the private placement funds received in September 2012.

With current working capital on hand, the Corporation expects to have adequate funding to provide for general operations and to meet all of the Corporation's future commitments for a period of at least 12 months.

The Corporation has 7,634,167 stock options and 15,384,615 warrants issued and outstanding as at December 31, 2013 at strike prices ranging from $0.18 to $3.09. However, the majority of these potentially dilutive securities were out-of-the-money at December 31, 2013 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, 2013 and 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, 2013
Year 5	May 21, 2012	May 20, 2015	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, 2013
Year 5	May 21, 2012	May 20, 2015	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, 2013
Year 4	December 14, 2011	December 13, 2014	Acquire seismic data or drill a well	Completed
Year 5	December 14, 2012	December 13, 2015	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, 2013
Year 3	June 14, 2010	December 13, 2013	Acquire seismic data	Completed
Year 4	December 14, 2011	December 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.

EPA 213 and EPA 252

EPA 213 and EPA 252 are currently in a moratorium, so the Corporation and its joint venture partner are unable to access these leases to commence operations at this time.

Statoil Farm-In Agreement

On June 10, 2013, the Corporation entered into the Amended Farm-in Agreement with Statoil. Pursuant to the Amended Farm-in Agreement, Statoil has been transferred 80% of the Corporation's working interests in EP 103, EP 104, EP 127 and EP 128 and in EPA 213 and EPA 252 in exchange for exploration program related payments and carried costs of up to US$175 million during the earning period ending in 2016. The Amended Farm-in Agreement redefined the previously agreed work phases and Statoil's corresponding capital expenditure commitments, which under the Amended Farm-in Agreement are additional to the approximately $15 million spent by Statoil in 2012, as follows:

Phase 1 & 2A (2013 and 2014):

- Statoil will spend US$50 million on exploration (PetroFrontier – nil) and assumed operatorship on September 1, 2013

- At the end of Phase 2A, Statoil will have the option to continue to Phase 2B; if Statoil elects not to continue, it must return to PetroFrontier 50% of its former working interest in the Permits, such that ownership will then be: Statoil (30%), PetroFrontier (70%)

Phase 2B (2015):

- Upon proceeding to Phase 2B, Statoil will spend the next US$30 million on exploration (PetroFrontier – nil)
- At the end of Phase 2B, Statoil will have the option to continue to Phase 3; if Statoil elects not to continue to Phase 3, then it must return to PetroFrontier 25% of its former working interest in the Permits, such that ownership will then be Statoil (55%), PetroFrontier (45%)

Phase 3 (2016):

- Upon proceeding to Phase 3, Statoil will spend the next US$80 million on exploration (PetroFrontier – nil)
- At the end of Phase 3, Statoil will own 80% and PetroFrontier will own 20% of PetroFrontier's former working interest in the Permits

At the end of Phase 3, Statoil will have completed its funding obligations under the Amended Farm-in Agreement and the sharing of future costs between Statoil and PetroFrontier will be based on their then respective ownership interests.

As at December 31, 2013, the Corporation had the following material contracts and commitments:

	Total	2014	2015	2016	2017
EP 103 minimum commitments	**1,198,204**	-	1,198,204	-	-
EP 104 minimum commitments	**1,077,909**	-	1,077,909	-	-
EP 127 minimum commitments	**1,179,977**	-	1,179,977	-	-
EP 128 minimum commitments	**1,846,385**	930,882	915,503	-	-
Leases	**217,239**	69,922	69,922	71,157	6,238
	5,519,714	**1,000,804**	**4,441,515**	**71,157**	**6,238**

The amounts referenced above represent the Corporation's minimum commitments under EP 103, EP 104, EP 127 and EP 128 given the Corporation's current 15% - 20% working interest in these respective leases. However, all of these minimum commitments are expected to be fully funded by Statoil as part of the 2014 WP&B in accordance with the Amended Farm-in Agreement. Baraka, a 25% working interest owner in EP 127 and EP128 is disputing the 2014 WP&B on these blocks. The Corporation does not see merit in Baraka's objections and the Corporation is keen to move forward with the 2014 WP&B. The joint operating agreements ("JOA") among the parties do provide for the potential dilution of Baraka's 25% working interest should it refuse to pay its cash calls. Statoil and PetroFrontier together hold 75% of the working interest and have voted to approve the 2014 WP&B in accordance with the JOA. The outcome of this dispute could result in amendments to the 2014 WP&B, which could have an impact on the Corporation's requirements to fund a portion of the commitments disclosed above.

During the years ended December 31, 2013 and 2012, the Corporation expensed $272,606 and $199,299 relating to operating leases it maintained throughout the years, respectively.

Segmented Information

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

	Year ended December 31, 2013		Year ended December 31, 2012	
	Canada	**Australia**	**Canada**	**Australia**
EXPENSES				
General and administrative	2,352,425	2,088,569	2,122,723	3,257,177
Gain/(loss) on marketable securities	(60,942)	-	45,506	-
Foreign exchange (gain)/loss	-	(11,088)	153,754	10,389
Financial derivative instruments	-	-	(150,631)	-
Share-based compensation	520,994	-	1,435,119	-
Depreciation	594	55,463	915	51,814
Loss on decommissioning liabilities	-	-	31,867	-
Impairment	-	68,488,582	-	-
Results from operating activities	**2,813,071**	**70,621,526**	**3,639,253**	**3,319,380**
Finance income	7,275	187,049	103,926	220,085
Finance costs	(1,525)	(29,487)	(1,249)	(40,616)
Net finance income	**5,750**	**157,562**	**102,677**	**179,469**
Net loss before taxes	(2,807,321)	(70,463,964)	(3,536,576)	(3,139,911)
Deferred tax recovery	-	15,090,780	-	-
NET LOSS	**(2,807,321)**	**(55,373,184)**	**(3,536,576)**	**(3,139,911)**
Exploration and evaluation assets (end of year)	-	43,712,206	-	112,614,425
Exploration and evaluation expenditures	-	(10,003)	-	14,945,160
Total assets (end of year)	6,800,903	46,069,061	1,983,777	135,675,582

Compensation of Key Management Personnel

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

	Year ended December 31	
	2013	**2012**
Salaries, directors fees and other benefits	956,588	863,239
Severance	-	-
Share-based compensation	513,055	1,421,246
	1,469,643	**2,284,485**

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, 2013 and 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") provided 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 financial statements. For the year ended December 31, 2013 and 2012, the Corporation was charged $135,906 and $554,192 of ASA expense. As at December 31, 2013, $19,678 was receivable from Rodinia, which was collected subsequent to December 31, 2013 (December 31, 2012 – $64,136 payable).

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.

Changes in Accounting Policies

Effective January 1, 2013, the Corporation adopted the following new accounting standards. The adoption of these standards did not have a material impact on the Corporation's financial statements.

- IFRS 7, *"Financial Instruments"*, provides additional information about offsetting of financial assets and financial liabilities. Additional disclosures will be required to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position.

- IFRS 10, *"Consolidated Financial Statements"*, provides a single model to be applied in control analysis for all investees including special purpose entities.

- IFRS 11, *"Joint Arrangements"*, redefines joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint operations will need to be proportionately consolidated and joint ventures to be equity accounted.
- IFRS 12, *"Disclosure of Interests in Other Entities"*, combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities.

- IFRS 13, *"Fair Value Measurement"*, defines the fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as 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.

- IAS 28, *Investments in Associates and Joint Ventures,* was amended as a consequence of the issuance of IFRS 10, IFRS 11 and IFRS 12. The amended IAS 28 sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

Future Accounting Pronouncements

The Corporation will be required to adopt the following:

- IAS 36, *Impairment of Assets,* was amended regarding disclosures of the recoverable amounts of CGUs with impairment. This amendment must be adopted January 1, 2014 and is expected to result in additional disclosures if impairments are recognized.

- IFRS 9, *Financial Instruments*, the first phase of the project to replace IAS 39, *Financial Instruments: Recognition and Measurement* has been issued but the adoption date has been deferred from January 1, 2015. A new date will be decided upon when the entire IFRS 9 project is closer to completion. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classifications: amortized

cost and fair value. Portions of the standard remain in development and the full impact of the standard on the Corporation's financial statements will not be known until the project is complete.

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.

Dispute with Baraka

The outcome of the dispute with Baraka could result in amendments to the 2014 WP&B, which could have an impact on the Corporation's requirements to fund a portion of the minimum commitments under EP 103, EP 104, EP 127 and EP 128, which otherwise would have been expected to be fully funded by Statoil as part of the 2014 WP&B in accordance with the Amended Farm-in Agreement.

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, 2013, the Corporation had a cumulative deficit of $79,007,237. 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 before changes in non-cash working capital of the Corporation for the year ended December 31, 2013 was $4,429,906. 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 Statoil will operate all 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 conducting any operations, 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

In accordance with the Amended Farm-in Agreement, Statoil has committed to funding 100% of the Corporation's share of the 2013 and 2014 capital expenditure programs. However, subsequent to 2014 Statoil may elect to exit the Amended Farm-in Agreement, which may bring into question the economic viability of the Corporation's assets. As a result, the Corporation may 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 and vice versa; however, the Corporation will not benefit from the fluctuating exchange rates of the Australian dollar in comparison to the Canadian dollar after the currency exchange.

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 520, 1011 – 1st Street S.W., Calgary, Alberta T2R 1J2.