



**PetroFrontier**

Management's Discussion & Analysis

March 31, 2016

**PetroFrontier Corp.**  
**MANAGEMENT’S DISCUSSION & ANALYSIS (“MD&A”)**

*March 31, 2016*

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PetroFrontier Corp. (the “Corporation”) is a public company, which is engaged in the business of evaluating petroleum and natural gas opportunities. The Corporation was previously engaged in the business of evaluating petroleum exploration in Northern Territory, Australia. The Corporation has 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 Corporation’s financial statements and the related notes for the three months ended March 31, 2016 and the year ended December 31, 2015. The financial statements have been prepared in Canadian dollars in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), which are also generally accepted accounting principles (“GAAP”) for publically accountable enterprises in Canada.

The Corporation's Board of Directors has reviewed and approved the consolidated financial statements and MD&A, both of which are effective May 24, 2016.

**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 had previously been engaged in the business of 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” includes PetroFrontier (Australia) on a consolidated basis.

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

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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 2016</b>	<b>Q4 2015</b>	<b>Q3 2015</b>	<b>Q2 2015</b>
Net loss	689,974	181,943	160,250	238,852
Per common share (basic and diluted)	0.00	0.00	0.00	0.00
Negative cash flow from operating activities <sup>(1)</sup>	638,544	231,679	133,592	176,306
Working capital	8,927,950	9,617,924	9,781,338	9,918,384
Total assets	9,024,172	9,681,433	9,876,247	9,998,429
Shareholders' equity	8,927,172	9,617,924	9,781,338	9,918,384
	<b>Q1 2015</b>	<b>Q4 2014</b>	<b>Q3 2014</b>	<b>Q2 2014</b>
Net loss	238,222	38,835	41,172,637	626,254
Per common share (basic and diluted)	0.00	0.00	0.52	0.01
Positive/(negative) cash flow from operating activities <sup>(1)</sup>	344,069	(562,627)	(580,659)	(375,323)
Working capital	10,165,984	10,213,703	10,405,923	6,569,003
Total assets	10,258,193	10,622,129	11,229,697	53,602,604
Shareholders' equity	10,165,984	10,213,703	10,405,923	52,949,820

<sup>(1)</sup> Cash flow from (used in) operating activities after changes in non-cash working capital

The Corporation is currently evaluating oil and natural gas opportunities and therefore 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 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 and the Research & Development tax incentives received during 2014 from the Australian Taxation Office totaling \$4,449,718 plus accrued interest totaling \$153,462 (Australian Dollars). 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*

As at March 31, 2016, cash totaled \$8,971,811 as compared to \$9,595,006 as at December 31, 2015, respectively. The decrease in cash and cash equivalents relates to the payment of accounts payable and accrued liabilities outstanding as at December 31, 2015 and general and administrative costs, including severance costs of \$465,000, incurred during the three months ended March 31, 2016.

*Financial Instruments*

The fair value of cash, accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to their short-terms to maturity.

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*Accounts Receivable*

Accounts receivable decreased from \$48,627 at December 31, 2015 to \$23,003 at March 31, 2016 as a result of collections in the period.

*Prepaid Expenses and Deposits*

Prepaid expenses and deposits decreased from \$37,800 at December 31, 2015 to \$29,358 at March 31, 2016. All of the amounts recorded as prepaid expenses and deposits relate to prepaid insurance and rent.

*Capitalization*

During the three months ended March 31, 2016, no general and administrative expenses were capitalized.

*Accounts Payable and Accrued Liabilities*

Accounts payable and accrued liabilities at March 31, 2016 totaled \$96,222 as compared to \$63,509 at December 31, 2015.

*General and Administrative Expense*

General and administrative ("G&A") expense for the three months ended March 31, 2016 totaled \$702,627 as compared to \$252,147 for the same period in 2015.

The main components of the Corporation's general and administrative expenditures are as follows:

	<b>Three months ended</b>	
	<b>March 31</b>	
	<b>2016</b>	<b>2015</b>
	<b>(\$)</b>	<b>(\$)</b>
Salaries and benefits	133,087	139,586
Severance costs	465,000	-
Office costs	54,064	44,650
Professional fees	39,515	61,706
Corporate and regulatory	10,961	6,205
	<b>702,627</b>	<b>252,147</b>

The significant increase in salaries and benefits in the first quarter of 2016 as compared to the same period in 2015 results from the one-time payment of severance costs of \$465,000. The other costs included in G&A are comparable period over period.

*Share-Based Compensation*

There was no share-based compensation expense for the three months ended March 31, 2016 as all stock options were vested by December 31, 2015.

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*Finance income*

Finance income for the three months ended March 31, 2016 totaled \$15,349 as compared to \$34,677 for the comparable period in 2015. The decrease in finance income reflects primarily lower interest rates and marginally lower balances of cash.

*Net Loss*

The Corporation recorded a net loss for the three months ended March 31, 2016 of \$689,974 as compared to a net loss of \$238,222 for the three months ended March 31, 2015. The Corporation currently has no oil and natural gas producing properties from which to generate revenues. The Corporation's net loss for both periods was generated primarily from G&A expenses including salaries, office costs, and travel costs. The net loss for 2016 was higher than 2015 loss primarily due to severance costs of \$465,000 paid in this quarter.

*Comprehensive Loss*

The Corporation recorded a comprehensive loss for the three months ended March 31, 2016 of \$689,974 as compared to a \$68,471 for the comparable period in 2015. 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. In 2016, the Corporation's only significant asset in Australia is cash of AUS\$190,080. During the three months ended March 31, 2016, the Australian dollar relative to the Canadian dollar remained relatively consistent as the exchange rate was CAD \$1.010 at December 31, 2015 and CAD \$0.9957 at March 31, 2016 resulting in an insignificant change on the conversion of the Corporation's Australian assets net of the loss incurred on the conversion of the Corporation's Australian liabilities.

**Common share information**

**Issued – common shares**

	<b>Three Months Ended March 31, 2016</b>		<b>Year Ended December 31, 2015</b>	
	<b>Number of shares</b>	<b>Amount (\$)</b>	<b>Number of shares</b>	<b>Amount (\$)</b>
<b>Common Shares</b>				
Balance, beginning of year	79,600,768	125,952,046	79,600,768	125,952,046
<b>Balance, end of period</b>	<b>79,600,768</b>	<b>125,952,046</b>	<b>79,600,768</b>	<b>125,952,046</b>

**Weighted average outstanding common shares**

The basic weighted average number of common shares outstanding for the three months ended March 31, 2016 and 2015 were 79,600,768. As the Corporation has recorded a loss for the three months ended March 31, 2016 and 2015, 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

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amounts are anti-dilutive. For the three months ended March 31, 2016 and 2015 no options were in-the-money.

**Liquidity and capital resources**

The diluted number of common shares outstanding at March 31, 2016 and December 31, 2015 were as follows:

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
Common shares	79,600,768	79,600,768
Options	3,310,000	3,310,000
<b>Total common shares (diluted)</b>	<b>84,910,768</b>	<b>84,910,768</b>

As at the date of this MD&A, the diluted number of Common Shares outstanding remained unchanged.

As at March 31, 2016, the Corporation had \$8,971,811 (December 31, 2015 - \$9,595,006) in cash and cash equivalents.

With working capital on hand of \$8,927,950 at March 31, 2016, 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 3,310,000 stock options issued and outstanding as at March 31, 2016 at strike prices ranging from \$0.18 to \$3.05. However, all of these potentially dilutive securities were out-of-the-money at March 31, 2016 and at the date of this MD&A.

**Material Contracts, Commitments and Contingencies**

**Australian Acreage**

As of December 31, 2015, the Corporation had successfully satisfied all minimum work requirements associated with all of its acreage in Australia and all of the Corporation's permits have been or are in the process of being relinquished to the government of Northern Territory, Australia.

**Office lease**

As at March 31, 2016, the Corporation had the following office lease commitments:

	<b>2016</b>	<b>2017</b>	<b>Total</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Office lease commitments	53,368	6,238	<b>59,606</b>
	<b>53,368</b>	<b>6,238</b>	<b>59,606</b>

**Litigation**

During the year ended December 31, 2014, Macquarie Capital Markets Canada Ltd. filed a Statement of Defence and Counterclaim against the Corporation in response to a Statement of Claim filed by the

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Corporation against Macquarie in the Court of Queen's Bench of Alberta on July 7, 2014. The Corporation has not recorded a contingent liability associated with the Counterclaim as the Corporation is of the opinion the Counterclaim is without merit. The Corporation will vigorously proceed with its lawsuit against Macquarie and its defence of the Counterclaim.

**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, 2016 and December 31, 2015. The total future obligation from these operating leases is described above in the section "Material Contracts, Commitments and Contingencies".

**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.

*Limited Operating and Earnings History*

The Corporation has no earnings history. The Corporation's future business plans may require 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 acquisition of new 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 existing 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, 2016, the Corporation had a cumulative deficit of \$122,805,018. 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 three months ended March 31, 2016 and 2015 were \$638,544 and \$344,069. 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. The Corporation's ability to add reserves in the future will depend not only on its ability to explore and develop 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.

*Operational Dependence*

In the future, the Corporation may enter into operations in which it is not the operator. As such, 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 effect 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, 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



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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.

*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. The Corporation presently has no active oil and gas operations and as such has no need to be insured against all of these risks. 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

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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*

The Corporation may require additional financing from time to time in order to carry out 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.

*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.

*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. 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.

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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*

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.

*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 Board has delegated the approval of the condensed consolidated interim financial statements and MD&A to 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 520, 1011 – 1st Street S.W., Calgary, Alberta T2R 1J2.