PetroFrontier

Management's Discussion & Analysis

December 31, 2014 and 2013

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

PetroFrontier Corp.

December 31, 2014

PetroFrontier Corp. (the "Corporation") is a public company, which has been engaged in the business of 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 accompanying financial statements and the related notes for the years ended December 31, 2014 and 2013 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 15, 2015.

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 has 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" 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".

Subsequent events

On March 2, 2015, the Corporation announced that it had retained GMP as the Corporation's exclusive financial advisor to assist in identifying and evaluating a wide range of options for the Corporation. A resulting transaction could include a merger or other business combination of the Corporation with another entity, a recapitalization, a purchase of assets, a joint venture, a farm-in or the sale of the Corporation as a whole.

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 was 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 and working interest earnings. On September 1, 2013, Statoil assumed operatorship of the Corporation's lands and completed the Phase 2A work program in 2014. In late 2014, the Corporation received notice from Statoil that it would not be proceeding to Phase 2B of the Amended Farmin Agreement which resulted in a significant downgrade to the exploratory potential of the lands and as such the aggregated carrying value of the Corporation's exploration and evaluation assets exceeded the fair value less costs of disposal. Accordingly, impairment of $40,302,333 was recorded during the year ended December 31, 2014 (December 31, 2013 - $68,488,582).

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 all wells at no cost to PetroFrontier. These operations were completed during 2014 to capture operational and cost efficiencies.

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 and an overall reduction in the Corporation's head office general and administrative costs. In addition, during 2014 the Corporation evaluated multiple 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.

	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Net loss	38,835	41,172,637	626,254	450,814
Per common share (basic and diluted)	0.00	0.52	0.01	0.01
Negative cash flow from operating activities[(1)]	(562,627)	(580,659)	(375,323)	(242,432)
Working capital	10,213,703	10,405,923	6,569,003	7,197,095
Total assets	10,622,129	11,229,697	53,602,604	54,753,802
Shareholders' equity	10,213,703	10,405,923	52,949,820	54,325,568

	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Net loss	526,458	1,483,345	54,787,185	1,383,517
Per common share (basic and diluted)	0.01	0.02	0.69	0.02
Positive/(negative) cash flow from operating activities [(1)]	(3,424,578)	1,839,341	332,753	(2,454,110)
Working capital	7,506,121	8,165,835	9,622,852	11,326,337
Total assets	52,869,964	55,617,100	57,174,839	138,356,483
Shareholders' equity	51,869,964	52,366,483	54,027,276	117,826,766

(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 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 and cash equivalents

As at December 31, 2014, cash and cash equivalents totaled $10,438,097 as compared to $7,459,605 as at December 31, 2013, respectively. The increase in cash and cash equivalents relates entirely to the Research & Development tax incentives from the Australian Taxation Office totaling $4,449,718 plus accrued interest totaling $153,462 (Australian Dollars), which were received during the year ended December 31, 2014. The following table summarizes the Corporation's cash and cash equivalents:

	December 31, 2014 ($)	**December 31, 2013 ($)**
Cash at bank and on hand	10,438,097	7,459,605
Cash and cash equivalents	**10,438,097**	**7,459,605**

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.

Accounts Receivable

Accounts receivable decreased from $1,595,084 at December 31, 2013 to $140,357 at December 31, 2014. The majority of the accounts receivable outstanding at December 31, 2014 and 2013 related to Australian investment tax credits and Canadian GST 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, 2014 ($)	**December 31, 2013 ($)**
Trade receivables	140,357	1,595,084
Allowance for doubtful accounts	-	-
Accounts receivable	**140,357**	**1,595,084**

Prepaid Expenses and Deposits

Prepaid expenses and deposits increased from $38,350 at December 31, 2013 to $43,675 at December 31, 2014. All of the amounts recorded as prepaid expenses and deposits relates to prepaid insurance and rent.

Impairment

	Year ended December 31, 2014 ($)	Year ended December 31, 2013 ($)
Impairment of goodwill	-	9,149,570
Impairment of exploration and evaluation assets	40,302,333	59,339,012
	40,302,333	**68,488,582**

The Corporation's exploration and evaluation assets at December 31, 2014 were assessed for impairment. During the year ended December 31, 2014, the Corporation received notice from Statoil that it would not be proceeding to Phase 2B of the Amended Farmin Agreement which resulted in a significant downgrade to the exploratory potential of the lands and as such the aggregated carrying value of the Corporation's exploration and evaluation assets exceeded the fair value less costs of disposal. Accordingly, impairment of $40,302,333 was recorded during the year ended December 31, 2014 (December 31, 2013 – $59,339,012). The impairment recorded during the year ended December 31, 2014, as a result of Statoil confirming that it would not be proceeding to Phase 2B of the Amended Farmin Agreement represents a Level 3 fair value measurement.

The Corporation's goodwill at December 31, 2013 was assessed for impairment and all of the Corporation's goodwill was 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 during the year ended December 31, 2013.

The Corporation's exploration and evaluation assets at December 31, 2013 were 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 of disposal. Accordingly, impairment of $59,339,012 was recorded during the year ended December 31, 2013. See note 9 for discussion regarding the Corporation's exploration and evaluation assets. The impairment recorded during the year ended December 31, 2013, 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 & Evaluation Assets ($)
Cost:	
At December 31, 2013	103,051,218
Cumulative translation adjustments and additions	1,129,091
Research & development tax incentives and other adjustments	(4,538,964)
At December 31, 2014	**99,641,345**
Accumulated impairment:	
At December 31, 2013	(59,339,012)
Impairment	(40,302,333)
At December 31, 2014	**(99,641,345)**
Accumulated depletion and depreciation:	
At December 31, 2013	-
Depletion and depreciation	-
At December 31, 2014	**-**
Net Book Value:	
At December 31, 2013	43,712,206
At December 31, 2014	**-**

During the year ended December 31, 2014, the Corporation received in aggregate Research & Development tax incentives from the Australian Taxation Office totaling $4,449,718 (Australian Dollars). These Research & Development tax incentives have been treated as a reduction to exploration and evaluation assets.

During the year ended December 31, 2014, the Corporation received notice from Statoil that it would not be proceeding to Phase 2B of the Amended Farmin Agreement which resulted in a significant downgrade to the exploratory potential of the lands and as such the aggregated carrying value of the Corporation's exploration and evaluation assets exceeded the fair value less costs of disposal. Accordingly, impairment of $40,302,333 was recorded during the year ended December 31, 2014 (December 31, 2013 - $59,339,012).

During the years ended December 31, 2014 and 2013, no general and administrative expenses were capitalized

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at December 31, 2014 totaled $408,426 as compared to $1,651,637 at December 31, 2013. The decrease in accounts payable at the end of the current year was due to lower activity levels as at December 31, 2014 in comparison to December 31, 2013. The following tables summarize the Corporation's accounts payable and accrued liabilities:

	December 31, 2014	December 31, 2013
Accrued liabilities	80,180	281,463
Trade payables	328,246	1,370,174
	408,426	**1,651,637**

Deferred Tax Asset

The following is a summary of the Corporation's deferred tax asset as at December 31, 2014 and 2013:

	2014		2013	
Deferred income tax assets / (liabilities)	Australia ($)	Canada ($)	Australia ($)	Canada ($)
Non-capital loss	14,013,317	1,848,470	16,954,893	1,482,947
Share issue costs	-	70,789	-	256,959
Exploration and evaluation assets and corporate assets	-	25	(13,333,284)	6,396
(Gain)/loss on marketable securities	-	944	-	(15,236)
Unrecognized deferred tax assets	(14,013,317)	(1,920,228)	(3,621,609)	(1,731,066)
Total	-	-	-	-

The Corporation has non-capital losses as at December 31, 2014 of approximately $49.2 million (2013 - $59.5 million) in Australia which have no expiry and $7.4 million (2013 - $5.9 million) in Canada which expire between 2030 and 2034. The Corporation has share issue costs of approximately $0.3 million (2013 - $1.0 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, 2014 totaled $1,918,927 as compared to $4,440,994 for the year ended December 31, 2013. The decrease in general and administrative expense over the same periods in the prior year relates to decreased staffing levels, reduced Calgary head office space and the closure of the Corporation's Adelaide office 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	
	2014 ($)	**2013 ($)**
Salaries and benefits	635,574	2,786,183
Office costs	141,771	251,254
Professional fees	1,032,821	1,288,166
Corporate and regulatory	108,761	80,075
Other	-	35,316
	1,918,927	**4,440,994**

Foreign Exchange Gain

The Corporation recorded a foreign exchange gain of $208 for the year ended December 31, 2014 as compared to a gain of $11,088 for the year ended December 31, 2013. 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, 2014 totaled $247,011 as compared to $520,994 for the year ended December 31, 2013. The substantial decrease in share-based compensation expense pertains to the fact that no stock options were granted during the current year in comparison to 3,920,000 stock options that were granted during the year ended December 31, 2013.

Depreciation

Depreciation expense for the year ended December 31, 2014 totaled nil as compared to $56,057 for the year ended December 31, 2013. All of the Corporations assets had been fully depreciated by the end of 2013 which is why there was no depreciation expense recorded during the year ended December 31, 2014. The depreciation expense recorded was as expected by management.

Finance income

Finance income for the year ended December 31, 2014 totaled $244,170 as compared to $194,324 for the year ended December 31, 2013. Overall, the finance income was as expected by management given the levels of cash on hand during the respective years.

Net Loss

The Corporation recorded a net loss for the year ended December 31, 2014 of $42,288,540 as compared to a net loss of $58,180,505 for the year ended December 31, 2013. 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, 2014 was $0.53 per share as compared to $0.73 per share for the year ended December 31, 2013.

Comprehensive Loss

The Corporation recorded a comprehensive loss for the year ended December 31, 2014 of $41,251,635 as compared to $65,257,612 for the year ended December 31, 2013. 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, 2014, the Australian dollar relative to the Canadian dollar remained relatively unchanged from CAD $0.949 at December 31, 2013 to CAD $0.948 at December 31, 2014. However, there was volatility in the exchange rate throughout the year ended December 31, 2014 with a general strengthening of the Australian dollar versus the Canadian dollar resulting in gains on the conversion of the Corporation's Australian assets net of losses incurred on the conversion of the Corporation's Australian liabilities. 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.

Common share information

Weighted average outstanding common shares

	Year ended December 31, 2014	Year ended December 31, 2013
Basic and diluted[(1)]	**79,600,768**	**79,428,165**

(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, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Common shares	79,600,768	79,600,768
Warrants	-	15,384,615
Options	5,790,000	7,634,167
Total common shares (diluted)	**85,390,768**	**102,619,550**

As at the date of this MD&A, the diluted number of Common Shares outstanding decreased to 84,400,768 as a result of 840,000 stock options that were forfeited and 150,000 options that expired unexercised out-of-the-money.

As at December 31, 2014, the Corporation had $10,438,097 in cash and cash equivalents. The source of the Corporation's net working capital of $10,213,703 was a result of the private placement funds received in September 2012 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).

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 5,790,000 stock options issued and outstanding as at December 31, 2014 at strike prices ranging from $0.18 to $3.05. However, all of these potentially dilutive securities were out-of-the-money at December 31, 2014 and at the date of this MD&A.

Material Contracts, Commitments and Contingencies

EP 103, EP 104, EP 127 and EP 128

As of December 31, 2014, the Corporation had successfully satisfied all minimum work requirements associated with EP 103, EP 104, EP 127 and EP 128. After satisfying the five year minimum work requirements for each of the exploration permits, the acreage is subject to relinquishment provisions. The Corporation intends to relinquish these permits in due course.

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. The Corporation intends to relinquish these permits in due course.

Office lease

As at December 31, 2014, the Corporation had the following office lease commitments:

	Total ($)	**2015 ($)**	**2016 ($)**	**2017 ($)**
	147,317	69,922	71,157	6,238
	147,317	69,922	71,157	6,238

During the year ended December 31, 2014, the Corporation expensed $71,270 relating to operating leases it maintained throughout the periods (December 31, 2013 - $272,606).

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 Corporation against Macquarie in the Court of Queen's Bench of Alberta. The Corporation will vigorously proceed with its lawsuit against Macquarie and its defence of the Counterclaim.

Segmented Information

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

	Year ended December 31, 2014		Year ended December 31, 2013	
	Canada ($)	**Australia ($)**	**Canada ($)**	**Australia ($)**
EXPENSES				
General and administrative	1,420,105	498,822	2,352,425	2,088,569
Gain/(loss) on marketable securities	64,719	-	(60,942)	-
Foreign exchange gain	(280)	-	-	(11,088)
Share-based compensation	247,011	-	520,994	-
Depreciation	-	-	594	55,463
Impairment	-	40,302,333	-	68,488,582
Results from operating activities	**1,731,555**	**40,801,155**	**2,813,071**	**70,621,526**
Finance income	52,819	191,351	7,275	187,049
Finance costs	-	-	(1,525)	(29,487)
Net finance income	**52,819**	**191,351**	**5,750**	**157,562**
Net loss before taxes	(1,678,736)	(40,609,804)	(2,807,321)	(70,463,964)
Deferred tax recovery	-	-	-	15,090,780
NET LOSS	**(1,678,736)**	**(40,609,804)**	**(2,807,321)**	**(55,373,184)**
Exploration and evaluation assets (end of year)	-	-	-	43,712,206
Research & development tax incentives and other adjustments	-	4,538,964	-	10,003
Total assets (end of year)	5,384,273	5,237,856	6,800,903	46,069,061

Compensation of Key Management Personnel

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

	Year ended December 31	
	2014 ($)	**2013 ($)**
Salaries, directors fees and other benefits	730,000	956,588
Severance	-	-
Share-based compensation	248,713	513,055
	978,713	**1,469,643**

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, 2014 and 2013. The total future obligation from these operating leases is described above in the section "Material Contracts, Commitments and Contingencies".

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

On January 1, 2014, the Corporation adopted IAS 36, *Impairment of Assets*, which was amended in May 2013 to reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The amendments require retrospective application and were adopted by the Corporation on January 1, 2014. The adoption will only impact the Corporation's disclosures in the notes to the financial statements in periods when an impairment loss or impairment recovery is recognized. The application of the amendment had no impact on the consolidated statements of loss and comprehensive earnings/loss or the consolidated statement of financial position.

Future Accounting Pronouncements

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. IFRS 15 will be applied by the Corporation on January 1, 2017 and the Corporation is currently evaluating the impact of the standard on the Corporation' s financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied by the Corporation on January 1, 2018 and the Corporation is currently evaluating the impact of the standard on the Corporation's financial statements.

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, 2014 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 has no earnings history. The Corporation's future business plans are likely to 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 December 31, 2014, the Corporation had a cumulative deficit of $121,224,693. 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 years ended December 31, 2014 and 2013 were $1,918,647 and $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

Statoil currently operates all of the assets in which the Corporation has an interest. However, the Corporation and Statoil have jointly decided not to pursue any further exploration activities on these lands, which mitigates the Corporation's operational dependence on Statoil.

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 affect on the Corporation. The Corporation does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations of the Corporation are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation.

Assessments of Value of Acquisitions

Acquisitions of oil and natural gas issuers and oil and natural gas assets are typically based on engineering and economic assessments made by independent engineers and the Corporation's own assessments. These assessments will include a series of assumptions regarding such factors as recoverability and marketability of oil and gas, future prices of oil and gas and operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the Corporation's control. In particular, the prices of, and markets for, oil and natural gas products may change from those anticipated at the time of making such assessment. In addition, all such assessments involve a measure of geological and engineering uncertainty which could result in lower than anticipated production and reserves. Initial assessments of acquisitions may be based on reports by a firm of independent engineers that are not the same as the firm that the Corporation may use for its year-end reserve evaluations. Because each of these firms may have different evaluation methods and approaches, these initial assessments may differ significantly from the assessments of the firm used by the Corporation. Any such instance may offset the return on and value of the Common Shares.

Estimate of Fair Market Value

There are numerous uncertainties inherent in an estimate of fair market value including many factors beyond the Corporation's control. The valuations herein represent estimates only. In general, estimates are based upon a number of variable factors and assumptions, such as engineering and geophysical information pertaining to hydrocarbon potential, current material contracts of the Corporation, production history of competitors on similar land positions, access to lands, availability, timing and amount of capital expenditures, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies, and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative, and are only attempts to define the degree of speculation involved.

Third Party Credit Risk

The Corporation is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Corporation, such failures could have a material adverse effect on the Corporation and its cash flow from operations.

Joint Venture

The Corporation is party to joint venture operating agreements and the Amended Farm-in Agreement. 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. The situation could also arise where the joint venture partners disagree in the interpretation of these agreements. 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

In the future, 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

The Corporation may require additional financing from time to time 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.