PetroFrontier

Condensed Consolidated Interim Financial Statements
for the three & nine months ended
September 30, 2011 and 2010

(Unaudited)

PetroFrontier Corp.

CONDENSED CONSOLIDATED INTERIM
STATEMENT OF FINANCIAL POSITION
(Canadian Dollars)
(Unaudited)

As at	September 30, 2011	December 31, 2010
		(Note 3)
ASSETS		
Current		
Cash and cash equivalents	**21,339,022**	55,710,522
Term deposits (Note 6)	**15,000,000**	-
Restricted cash	**-**	58,467
Marketable securities	**24,629**	**-**
Accounts receivable	**1,347,889**	1,675,441
Prepaid expenses and deposits	**2,294,865**	321,411
Discontinued operations (Note 5)	**415,498**	**-**
	40,421,903	57,765,841
Corporate assets (Note 7)	**99,596**	2,050
Exploration and evaluation assets (Note 4 & 7)	**84,575,291**	10,213,926
Goodwill (Note 4 & 5)	**9,004,870**	-
Discontinued operations (Note 5)	**98,500**	-
	134,200,160	67,981,817
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**4,910,175**	2,764,508
Financial instruments (Note 12)	**64,756**	-
Discontinued operations (Note 5)	**505,759**	-
	5,480,690	2,764,508
Asset retirement obligations (Note 8)	**474,474**	-
Deferred tax liability (Note 9)	**16,368,449**	-
Discontinued operations (Note 5)	**98,500**	-
	22,422,113	2,764,508
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	**117,119,876**	68,110,645
Warrants (Note 10)	**1,073,250**	-
Contributed surplus (Note 10)	**5,543,916**	2,132,585
Accumulated other comprehensive income (Note 10)	**503,322**	789,146
Deficit	**(12,462,317)**	(5,815,067)
	111,778,047	65,217,309
	134,200,160	67,981,817

See accompanying notes to the condensed consolidated interim financial statements

Commitments (Note 14)

Subsequent events (Note 16)

PetroFrontier Corp.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE LOSS
(Canadian Dollars)
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	**2011**	2010
		(Note 15)		(Note 15)
EXPENSES				
General and administrative	**996,947**	258,486	**2,494,419**	808,520
Loss on marketable securities	**25,777**	-	**32,590**	-
Foreign exchange loss	**86,057**	-	**92,668**	-
Financial instruments (Note 12)	**76,819**	-	**110,831**	-
Share-based compensation (Note 10)	**980,062**	144,508	**3,917,889**	392,718
Depreciation and accretion	**10,305**	129	**10,559**	383
Corporate acquisition costs (Note 4)	**17,497**	-	**1,173,087**	**-**
	2,193,464	403,123	**7,832,043**	1,201,621
Results from operating activities	**(2,193,464)**	(403,123)	**(7,832,043)**	(1,201,621)
Finance income	**111,377**	12,352	**385,023**	22,929
Finance costs	**(4,305)**	(5,756)	**(10,203)**	(7,447)
Net finance income	**107,072**	6,596	**374,820**	15,482
Net loss before taxes	**(2,086,392)**	(396,527)	**(7,457,223)**	(1,186,139)
Deferred tax recovery (Note 9)	**-**	**-**	**768,599**	
Net loss from continuing operations	**(2,086,392)**	(396,527)	**(6,688,624)**	(1,186,139)
Net Earnings from discontinued operations (Note 5)	**45,297**	-	**41,374**	-
Net loss for the period	**(2,041,095)**	(396,527)	**(6,647,250)**	(1,186,139)
Other Comprehensive Earnings				
Foreign exchange loss on translation of foreign operations	**(608,757)**	(34,433)	**(285,824)**	(137,074)
Comprehensive Loss	**(2,649,852)**	(430,960)	**(6,933,074)**	(1,323,213)
Deficit, beginning of period	**(10,421,222)**	(1,398,497)	**(5,815,067)**	(608,885)
Deficit, end of period	**(12,462,317)**	(1,795,024)	**(12,462,317)**	(1,795,024)
Net loss per share (Note 10)				
Basic and diluted from continuing operations	**(0.03)**	(0.02)	**(0.12)**	(0.07)
Basic and diluted from discontinued operation	**0.00**	0.00	**0.00**	0.00
Basic and diluted	**(0.03)**	(0.02)	**(0.12)**	(0.07)

See accompanying notes to the condensed consolidated interim financial statements

PetroFrontier Corp.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Canadian Dollars)
(Unaudited)

	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance at January 1, 2011	68,110,645	-	2,132,585	789,146	(5,815,067)	65,217,309
Net loss					(6,647,250)	(6,647,250)
Foreign exchange gain (loss) on translation of foreign operations				(285,824)		(285,824)
Issued on exercise of Pendulum agent's options	27,000					27,000
Issued for shares of Texalta Petroleum Ltd.	47,784,926	1,073,250				48,858,176
Issued on exercise of stock options	1,197,305		(506,558)			690,747
Share-based compensation			3,917,889			3,917,889
Balance at September 30, 2011	**117,119,876**	**1,073,250**	**5,543,916**	**503,322**	**(12,462,317)**	**111,778,047**

Balance at January 1, 2010	10,411,608	-	252,249	285,608	(608,885)	10,340,580
Net loss					(1,186,139)	(1,186,139)
Foreign exchange loss on translation of foreign operations				(137,074)		(137,074)
Private placement	100,000					100,000
Issued on exercise of stock options	7,600		(2,600)			5,000
Share-based compensation			392,718			392,718
Share issue costs	1,305					1,305
Balance at September 30, 2010	10,520,513	-	642,367	148,534	(1,795,024)	9,516,390

See accompanying notes to the condensed consolidated interim financial statements

PetroFrontier Corp.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS *(Canadian Dollars)* *(Unaudited)*	**Three Months Ended September 30**		**Nine Months Ended September 30**	
	2011	2010	**2011**	2010
Cash provided by (used in)				
OPERATING				
Net loss from continuing operations	**(2,086,392)**	(396,527)	**(6,688,624)**	(1,186,139)
Unrealized loss on marketable securities	**25,777**	-	**32,590**	-
Financial instruments	**30,744**	-	**64,756**	-
Depletion, depreciation and accretion	**10,305**	129	**10,559**	383
Share-based compensation	**980,062**	144,508	**3,917,889**	392,718
Deferred tax recovery	**-**	-	**(768,599)**	-
Net finance income	**(107,072)**	(6,596)	**(374,820)**	(15,482)
	(1,146,576)	(258,486)	**(3,806,249)**	(808,520)
Change in non-cash working capital (Note 11)	**(528,836)**	406,563	**608,756**	377,110
Cash flow from continuing operating activities	**(1,675,412)**	148,077	**(3,197,493)**	(431,410)
Cash flow from discontinued operations before change in non-cash working capital	**439,242**	-	**602,244**	-
Change in non-cash working capital from discontinued operations	**310,167**	-	**(598,118)**	-
Cash flow from discontinued operations	**749,409**	-	**4,126**	-
Cash flow from operating activities	**(926,003)**	148,077	**(3,193,367)**	(431,410)
FINANCING				
Exercise of Pendulum agent's options	**-**	-	**27,000**	-
Issuance of common shares from exercise of stock options	**544,081**	105,000	**690,747**	105,000
Share issue costs	**-**	28,033	**-**	1,305
Interest paid	**(4,305)**	(5,756)	**(10,203)**	(7,447)
	539,776	127,277	**707,544**	98,858
INVESTING				
Acquisitions, net of cash acquired	**-**		**(8,858,137)**	
Exploration and evaluation expenditures	**(10,007,187)**	(1,757,723)	**(15,049,543)**	(1,910,350)
Corporate asset expenditures	**(99,884)**	-	**(104,123)**	(2,563)
Restricted cash	**-**	2,302,270	**-**	(2,197,972)
Interest received	**60,666**	12,352	**331,341**	22,929
Investing activities from continuing operations	**(10,046,405)**	556,899	**(23,608,462)**	(4,087,956)
Disposals of property, plant and equipment from discontinued operations	**6,810,000**	-	**6,810,000**	-
	(3,236,405)	556,899	**(16,870,462)**	(4,087,956)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	**(92,324)**	(251,881)	**(15,215)**	(251,944)
Decrease in cash and cash equivalents	**(3,714,956)**	580,372	**(19,371,500)**	(4,672,452)
Cash and cash equivalents and term deposits, beginning of the period	**40,053,978**	3,026,176	**55,710,522**	8,279,000
Cash and cash equivalents and term deposits, end of the period	**36,339,022**	3,606,548	**36,339,022**	3,606,548

See accompanying notes to the condensed consolidated interim financial statements

UNAUDITED NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. REPORTING ENTITY

PetroFrontier Corp. (the "Corporation") was incorporated in Alberta, Canada on February 6, 2009 under the name Australia Energy Corp.("AEC"). On December 31, 2010, the Corporation amalgamated with Pendulum Capital Corporation and filed articles of amalgamation to change its name to PetroFrontier Corp. The Corporation's registered office is 320, 715 – 5th Avenue S.W. Calgary, Alberta, Canada T2P 2X6. The Corporation is engaged in the business of international petroleum exploration in Northern Territory, Australia, through its wholly owned subsidiary, PetroFrontier (Australia) Pty. Ltd. ("PetroFrontier Australia"). The consolidated interim financial statements of the Corporation as at and for the three and nine months ended September 30, 2011 comprise the Corporation and PetroFrontier Australia and unless otherwise indicated the term "Corporation" refers to both the Corporation and PetroFrontier Australia.

2. EXPLORATION STAGE CORPORATION AND GOING CONCERN

The Corporation is engaged primarily in the pursuit of petroleum and natural gas through exploration in the Northern Territory, Australia. Since inception, the efforts of the Corporation have been devoted to the pursuit of petroleum exploration licenses, land access agreements with aboriginal stakeholders, and initial stage seismic acquisition. To date, the Corporation has not earned significant revenue from these operations and is considered to be in the exploration stage. The recoverability of the costs incurred to date is uncertain and dependent upon achieving commercial production or sale, the ability of the Corporation to obtain sufficient financing to fulfill its obligations under the petroleum exploration licenses and upon future profitable operations.

These condensed consolidated interim financial statements have been prepared by management in accordance with accounting principles applicable to a going concern, which assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. At September 30, 2011, the Corporation had working capital of $34,941,213, a deficit of $12,462,317 and a net loss for the three and nine months ended September 30, 2011 of $2,041,095 and $6,647,250, respectively. The Corporation's petroleum licenses are in the exploration stage.

The Corporation is dependent upon obtaining sufficient financing to fulfill its obligations under its petroleum exploration licenses and upon future profitable operations. During December 2010, the Corporation closed a series of private placement offerings for gross proceeds of $58,500,000 through the issuance of 29,250,000 common shares of the Corporation at $2.00 per common share. With current working capital on hand, the Corporation has adequate funding to provide for general operations and to meet the Corporation's minimum work requirements with the government of the Northern Territory of Australia for a period of at least 12 months.

3. BASIS OF PRESENTATION AND ADOPTION OF IFRS

A) Statement of compliance

These condensed interim consolidated financial statements for the three and nine months ended September 30, 2011 and comparable periods are unaudited and have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" using the accounting policies consistent with International Financial Reporting Standards ("IFRSs") and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. Previously, the Corporation prepared its consolidated financial statements in accordance with previous Canadian generally accepted accounting principles ("GAAP"). The accounting policies followed in these interim financial statements are the same as those applied in the Corporation's interim financial statements for the period ended March 31, 2011. The Corporation has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect.

The adoption of IFRS resulted in selected changes to the Corporation's accounting policies as compared to those disclosed in the Corporation's annual audited Consolidated Financial Statements for the period ended December 31, 2010 issued under Canadian GAAP. A summary of the significant changes to the accounting policies are presented in note 15 along with reconciliations illustrating the impact of the transition to IFRS for the comparable periods as at and for the three and nine months ended September 30, 2010.

These condensed interim consolidated financial statements should be read in conjunction with the Corporation's Canadian GAAP annual consolidated financial statements for the year ended December 31, 2010, and the Corporation's interim financial statements for the quarter ended March 31, 2011, prepared in accordance with IFRS.

The condensed consolidated interim financial statements were authorized for issue by the Audit Committee on November 24, 2011.

B) Use of management estimates, judgments and measurement uncertainty

The timely preparation of the condensed consolidated interim financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities as at the date of the condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as at the date of the condensed consolidated interim financial statements. Accordingly, actual results could differ from estimated amounts as future confirming events occur. Significant estimates and judgements made by management in the preparation of these condensed consolidated interim financial statements are outline below:

i) Determination of cash-generating units ("CGU")

Property, plant and equipment are aggregated into CGUs based on their ability to generate a largely independent cash flows and are used for impairment testing. The determination of the Corporation's CGUs is subject to management's judgement.

ii) Exploration and evaluation ("E&E")

The decision to transfer assets from exploration and evaluation to property, plant and equipment is based on the estimated proved and probable reserves used in the determination of an area's technical feasibility and commercial viability.

iii) Asset retirement obligations

Amounts recorded in asset retirement obligations and the related accretion expense require the use of estimates with respect to the amount and timing of asset retirements, site remediation, discount rate, inflation rate and related cash flows. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

iv) Share-based compensation

Compensation costs accrued for share-based compensation plan is subject to the estimation of what the ultimate payout will be using the Black-Scholes pricing model which is based on significant assumptions such as the future volatility of the market price of the Corporation's shares and expected term of the issued stock option.

v) Financial instruments

The fair value of the foreign exchange contracts are determined by calculating the mark-to market value of the contracts which is based on significant assumptions such as the forecasted Australian / Canadian foreign exchange rate.

vi) Income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Corporation and its subsidiaries operate are subject to change and interpretation. As such, income taxes are subject to measurement uncertainty. Deferred tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

vii) Business combinations

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of exploration and evaluation assets and petroleum and natural gas assets acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill in the purchase price allocation. Future net earnings can be affected as a result of changes in future depletion and depreciation, asset impairment or goodwill impairment.

4. CORPORATE ACQUISTION

On May 31, 2011, the Corporation acquired all of the issued and outstanding shares of Texalta Petroleum Ltd. (“Texalta”), a TSX Venture listed company with large resource potential for oil in the Arthur Creek Shale in the Georgina Basin, Northern Territory, Australia and oil assets focussed in Saskatchewan, pursuant to a Plan of Arrangement under the *Business Corporations Act* (Alberta) (the “Texalta Arrangement”).

The purchase price paid by the Corporation for all of Texalta’s shares pursuant to the Texalta Arrangement was a total of 15,667,189 common shares of the Corporation, 675,000 warrants of the Corporation and $10 million in cash. The common shares issued were valued using the share price of the Corporation on May 31, 2011. The warrants issued were valued using the Black-Scholes pricing model (Note 9).

The goodwill recognized on acquisition is attributed to the strategic benefit that a large potential resource play for oil in the Arthur Creek Shale formation is expected to bring and attribute to expected future cash flows generated from the ability to unlock large resource potential through continued improvements in technology. None of the goodwill recognized is expected to be deductible for income tax purposes. The condensed consolidated interim statement of comprehensive loss includes the results of operations for the period following the close of the transaction on May 31, 2011. These amounts have not been disclosed separately below as it is impracticable to do so as operations were consolidated on the acquisition date.

The Texalta Arrangement has been accounted for as a business combination using the acquisition method whereby the net assets acquired and the liabilities assumed are recorded at fair value. The following table summarizes the net assets acquired pursuant to the acquisition:

Fair value of net assets acquired	
Exploration and evaluation assets	59,009,550
Property, plant and equipment	7,146,967
Goodwill	9,773,469
Working capital	510,705
Decommissioning liabilities	(445,467)
Deferred tax liability	(17,137,048)
Total net assets acquired	58,858,176

Consideration	
Common shares issued	47,784,926
Warrants issued	1,073,250
Cash	10,000,000
Total purchase price	58,858,176

Corporate acquisition costs

For the three and nine months ended September 30, 2011, the Corporation incurred $17,497 and $1,173,087, respectively of expenses related to the acquisition of Texalta. Corporate acquisition costs are expensed as incurred and are not part of the consideration transferred on completion of the acquisition.

Pro forma results

The pro forma results for the nine months ended September 30, 2011 are shown below, as if the acquisition had occurred on January 1, 2011. The impact of this acquisition attributable to net income is not determinable. Pro forma results are not indicative of actual results or future performance.

	Nine months ended September 30, 2011
Oil and natural gas sales	1,892,580
Crown and other royalties	(106,821)
Operating expenses	(325,135)

The net earnings from discontinued operations on the statement of comprehensive loss, for the nine months ended September 30, 2011 includes $916,190 of oil and natural gas sales attributable to the assets acquired since the acquisition date. The impact of this acquisition attributable to net income is not determinable. Oil sales, crown and other royalties and operating expenses presented in the discontinued operations note 5, for the three and nine months ended September 30, 2011, were generated from oil and natural gas assets located in Canada.

5. DISCONTINUED OPERATIONS

As at	September 30, 2011
ASSETS – DISCONTINUED OPERATIONS	
Current	
Accounts receivable	**415,498**
	415,498
Property, plant and equipment	**98,500**
	513,998
LIABILITIES – DISCONTINUED OPERATIONS	
Current	
Accounts payable and accrued liabilities	**505,759**
	505,759
Asset retirement obligations	**98,500**
	604,259

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
REVENUE		
Oil and natural gas sales	**664,627**	**916,190**
Crown and other royalties	**(109,400)**	**(146,150)**
	555,227	**770,040**
Operating	**115,985**	**167,796**
Depletion, depreciation and accretion	**498,719**	**665,644**
Impairment of goodwill	**768,599**	**768,599**
Gain on disposition of discontinued assets	**(873,373)**	**(873,373)**
	(509,930)	**(728,666)**
Net Loss from discontinued operations	**45,297**	**41,374**

On August 1, 2011, PetroFrontier disposed of certain non-core Canadian petroleum and natural gas properties located at Alameda, to an arm's length private company, for a cash purchase price of $50,000

On September 8, 2011, PetroFrontier disposed of its non-core Canadian petroleum and natural gas properties located at Wordsworth and Queensdale in Southeast Saskatchewan, as well as exploration properties at Carlyle, Saskatchewan and Joarcam, Alberta, to another arm's length private company for a cash purchase price of $6,760,000. This disposition represented the sale of all of PetroFrontier’s remaining Canadian petroleum and natural gas properties acquired pursuant to its plan of arrangement with Texalta Petroleum Ltd. that closed on May 31, 2011 and as a result this disposition has been accounted for as a discontinued operation.

6. TERM DEPOSITS

	September 30, 2011
Term Deposits ($)	**15,000,000**

Effective interest rate (%) on term deposits	**1.3**
Average number of days to maturity for term deposits	**96**

7. PROPERTY, PLANT AND EQUIPMENT

	Exploration & Evaluation Assets	Corporate Assets
	($)	**($)**
Cost:		
At December 31, 2010	10,213,926	2,563
Additions	74,361,365	104,123
At September 30, 2011	**84,575,291**	**106,686**
Accumulated depletion and depreciation:		
At December 31, 2010	-	(513)
Depletion and depreciation	-	(6,577)
At September 30, 2011	**-**	**(7,090)**
Net Book Value:		
At December 31, 2010	10,213,926	2,050
At September 30, 2011	**84,575,291**	**99,596**

During the nine months ended September 30, 2011, $53,401 relating to general and administrative expenses were capitalized.

8. ASSET RETIREMENT OBLIGATIONS

The total future asset retirement obligations were estimated by management based on the expected costs to abandon and restore the well sites and the facilities and the estimated timing of costs to be incurred in future periods. The Corporation has estimated that the total undiscounted amount of cash flows required to settle its retirement obligations at September 30, 2011 was $505,766, which will be incurred between 2011 and 2021. The Corporation used a risk free rate of 4.7% - 5.2% to calculate the present value of the asset retirement obligations and an inflation rate of 3.6% - 4.0% was used to inflate the costs. Changes to the asset retirement obligations were as follows:

	September 30, 2011
	($)
Balance, beginning of period	-
Liabilities incurred	478,296
Revision to estimates	(7,804)
Accretion	3,982
Balance, end of period	**474,474**

9. DEFERRED TAXES

During the September 30, 2011 quarter ended, the Corporation recorded a $17,137,048 deferred tax liability as part of the acquisition of Texalta (Note 4). The Corporation recognized a nil and $768,599 deferred tax recovery for the three and nine months ended September 30, 2011 due to recognizing previously unrecorded deferred tax assets. As with the acquisition these deferred tax assets can now be realized.

10. SHAREHOLDERS' EQUITY

A) Authorized

Unlimited number of common voting shares, no par value.
Unlimited number of preferred shares, no par value, issuable in series.

B) Common shares, issued and outstanding

	Period Ended September 30, 2011		Year Ended December 31, 2010	
	Number of shares	**Amount ($)**	Number of shares	Amount ($)
Common Shares				
Balance, beginning of year	**47,730,134**	**68,110,645**	7,000,000	288,328
Exercise of Pendulum agent's options	**22,500**	**27,000**	-	-
Exercise of stock options	**519,998**	**1,197,305**		
Shares issued to acquire outstanding shares of Texalta (Note 4)	**15,667,189**	**47,784,926**		
Consolidation of outstanding common shares (1-for-12 basis)	-	-	(6,416,667)	-
Listing fee consideration	-	-	-	878,338
Shares issued to acquire outstanding shares of AEC	-	-	47,146,801	66,943,979
Balance, end of period	**63,939,821**	**117,119,876**	**47,730,134**	**68,110,645**
Warrants				
Balance, beginning of year	-	-	-	-
Issued to acquire outstanding shares of Texalta (Note 4)	**675,000**	**1,073,250**	-	-
Balance, end of period	**675,000**	**1,073,250**	-	-

For the nine months ended September 30, 2011; 22,500 Pendulum agent's options were exercised. As at September 30, 2011, there were 58,333 Pendulum stock options and 2,500 Pendulum agent's options outstanding with strike prices of $1.20 and remaining contractual lives of 3 months and 10 months, respectively.

The fair value of the warrants was estimated on the date of issuance using the Black-Scholes pricing model with weighted average assumptions and resulting values for issuances as follows:

Assumptions	**Period ended September 30, 2011**
Risk free interest rate (%)	1.75
Expected life (years)	0.98
Expected volatility (%)	102
Expected dividends	-
Fair value of warrants granted (per warrant)	**1.59**

C) Stock options

Employees, officers, directors and consultants of PetroFrontier may be granted options to purchase common shares. Options granted typically have a term of five years to expiry and vest equally over a two year period on the basis of one-third on the date of grant, one-third on the first anniversary date of the grant, and one-third on the second anniversary date of the grant. The exercise price of each option equals the market price of the Corporation's common shares on the date of grant.

The following table summarizes the changes to the Corporation's option plan for the quarter ended September 30, 2011:

	Number of options	**Weighted average price ($)**
Balance, December 31, 2010	4,040,000	1.52
Exercised	(519,998)	1.33
Expired	(10,002)	2.70
Granted	1,890,000	3.02
Balance, September 30, 2011	**5,400,000**	2.06

The following table summarizes stock options outstanding and exercisable under the plan as at September 30, 2011:

	Options outstanding			**Options exercisable**	
Exercise price	**Number outstanding at period end**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Number exercisable at period end**	**Weighted average exercise price**
$0.25	220,000	2.4	$0.25	220,000	$0.25
$1.00	1,110,001	3.4	$1.00	646,668	$1.00
$1.20	105,000	2.4	$1.20	105,000	$1.20
$2.00	2,196,667	4.2	$2.00	663,327	$2.00
$3.05	1,633,332	4.7	$3.05	536,645	$3.05
$3.09	35,000	4.4	$3.09	11,666	$3.09
$3.60	100,000	4.4	$3.60	33,333	$3.60
	5,400,000	**3.8**	**$2.06**	**2,216,639**	**$1.78**

D) Share-based compensation

The Corporation accounts for its share-based compensation plan using the fair value method. Under this method, a compensation cost is charged over the vesting period for stock options granted to employees, officers, directors and consultants of PetroFrontier, with a corresponding increase to contributed surplus.

The following table summarizes the changes in contributed surplus:

	September 30, 2011	December 31, 2010
	($)	($)
Balance, beginning of period	**2,132,585**	252,249
Share-based compensation expense	**3,917,889**	1,993,107
Exercise of stock options	**(506,558)**	(112,771)
Balance, end of period	**5,543,916**	2,132,585

The fair value of the options granted during the nine months ended September 30, 2011 was estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

	September 30, 2011	**December 31, 2010**
Risk free interest rate (%)	**2.33**	2.26
Expected life (years)	**5.00**	5.00
Expected volatility (%)	**102**	104
Expected dividends	**-**	-
Weighted average fair value of options granted	**$2.30**	$1.34

E) Per common share amounts

The basic weighted average number of common shares outstanding for the three and nine months ended September 30, 2011 were 63,800,193 and 54,894,237, respectively (16,651,011 and 16,642,496 for the for the same period in the prior year). The Corporation has recorded a loss for the three and nine months ended September 30, 2011 and 2010 and as such 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.

F) Accumulated other comprehensive income

	September 30,2011	December 31, 2010
	($)	($)
Balance, beginning of period	**789,146**	285,608
Foreign exchange (loss)/gain on translation of foreign operations	**(285,824)**	503,538
Balance, end of period	**503,322**	789,146

G) Management of capital structure

The Corporation's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. As at September 30, 2011, the Corporation considers its capital structure to include shareholders' equity of $111,778,047 (December 31, 2010 - $65,217,309) and working capital of $34,941,213 (December 31, 2010 - $55,001,333).

As the Corporation is in the exploration phase and has not yet generated funds from operations, it is unable to monitor capital based on the ratio of net debt to annualized funds generated from operations. Therefore, the Corporation monitors capital based on the projected rate of capital spending and available funds on hand. In order to adjust the capital structure, the Corporation may from time to time issue shares and/or adjust its capital spending levels.

11. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2011	2010	**2011**	2010
	($)	($)	**($)**	($)
Restricted Cash	**-**	-	**58,467**	-
Accounts receivable	**(770,775)**	(94,775)	**381,234**	(112,871)
Prepaid expenses and deposits	**(1,784,910)**	(199,581)	**(1,973,454)**	(199,581)
Accounts payables and accrued liabilities	**1,989,025**	799,882	**2,145,667**	721,535
Other	**37,824**	(98,963)	**(3,158)**	(31,973)
Change in non-cash working capital	**(528,836)**	406,563	**608,756**	377,110

12. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The Corporation's financial instruments recognized in the interim statement of financial position consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and foreign exchange forward contracts. The fair value of these financial instruments, except for foreign exchange forward contracts, approximates their carrying amounts due to their short terms to maturity.

As the foreign exchange forward contracts are designated as held-for-trading they are carried at fair value.

The Corporation classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

The fair value of 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.

Forward foreign currency exchange rate contracts

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. As at September 30, 2011, the Corporation had a total of 11 forward foreign currency exchange rate contracts with the following terms:

AUD bought ($)	CAD sold ($)	Average Rate (%)	Date of Maturity	Mark to Market Fair Value
13,125,000	13,321,562	101.45	October 18, 2011 – January 18, 2012	(64,756)

Credit risk

As the Corporation is currently in the exploration phase, accounts receivable is limited to amounts largely pertaining to joint venture receivables and income tax credits on goods and services taxes in Australia and in Canada which are subject to normal credit risks.

Currency risks

The Corporation is exposed to exchange rate fluctuations in relation to amounts due to services it must purchase in foreign currencies including the Australian and United States dollars. As at September 30, 2011, the Corporation's cash and cash equivalents included approximately $4,667,151 denominated in Australian dollars. A decrease or increase of one percent to the Australia / Canada foreign exchange rate would have decreased or increased the other comprehensive loss by $46,672 for the nine months ended September 30, 2011. Management continually monitors the Corporation's currency risk and believes this exposure is not material to its overall operations.

Interest rate risk

At September 30, 2011, the Corporation had no outstanding bank debt and is not exposed to interest rate risk at this time.

Liquidity risk

Liquidity risk relates to the risk the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The financial liabilities on its statement of financial position are limited to accounts payable. The Corporation anticipates it will continue to have adequate liquidity to fund its existing financial liabilities and ongoing operating and general administrative expenses through its existing working capital. The pace of future capital investment and the related financial liabilities incurred from the capital investment program will be dependent upon the Corporation's capacity to secure additional equity financing on favorable terms. The Corporation had no defaults or breaches on any of its financial liabilities. The Corporation expects to satisfy obligations under accounts payable in less than one year.

Market risk

Market risk is comprised of currency risk, interest rate risk and other price risks which consist primarily of fluctuations in petroleum and natural gas prices. With no bank debt as at September 30, 2011 there is no direct exposure to fluctuations in interest rates. As the Corporation is in the exploration stage, fluctuations in commodity prices bear no direct risk to the Corporation's revenue, however adverse fluctuations in interest rates, exchange rates and commodity prices may indirectly affect the Corporation's ability to obtain equity financing and future bank debt, if required, and on favorable terms.

13. RELATED PARTY TRANSACTIONS

In accordance with the terms of an Administrative Services Agreement ("ASA"), Rodinia Oil Corp. ("Rodinia") provides certain administrative services and office accommodations to the Corporation on a cost recovery basis. Rodinia and the corporation share five common directors and three common executives. ASA charges are recorded to general and administrative expenses in the Corporation's financial statements. For the nine months ended September 30, 2011, Rodinia charged $256,932 of ASA expense. Included in accounts payable as at September 30, 2011, is a $58,611 payable to Rodinia.

14. COMMITMENTS

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**
Year 1	November 21, 2006	November 20, 2007	Seismic studies, reprocessing and interpretation	Completed
6 month extension of license – October 3, 2008				
6 month extension of license – March 12, 2009				
Year 2	November 21, 2007	November 20, 2009	Acquire 100 km 2D seismic	Completed
6 month extension and variation of license – January 8, 2010				
Year 3	November 21, 2009	May 20, 2011	Acquire 150 km 2D seismic	Completed
Year 4	May 21, 2011	May 20, 2012	Drill one exploration well	Outstanding
Year 5	May 21, 2012	May 20, 2013	Drill one exploration well	Outstanding

UNAUDITED NOTES (continued)

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
Year 1	November 21, 2006	November 20, 2007	Seismic studies, reprocessing and interpretation	Completed
6 month extension of license – October 3, 2008				
6 month extension of license – March 12, 2009				
Year 2	November 21, 2007	November 20, 2009	Acquire 100 km 2D seismic	Completed
6 month extension and variation of license – January 8, 2010				
Year 3	November 21, 2009	May 20, 2011	Acquire 150 km 2D seismic	Completed
Year 4	May 21, 2011	May 20, 2012	Drill one exploration well	Outstanding
Year 5	May 21, 2012	May 20, 2013	Drill one exploration well	Outstanding

On April 1, 2010, the Corporation entered into the Baraka Farmin Agreements with Baraka Energy & Resources Ltd. (“Baraka”), pursuant to which the Corporation earned a 50% working interest in 7.8 million gross undeveloped acres before royalties (3.9 million net) in EP 127 and EP 128. These exploration permits offset the Corporation’s EP 103 and EP 104 to the north, west and south in the Southern Georgina Basin. The Corporation will be the Operator under the Baraka Farmin Agreements.

Under the terms of the Baraka Farmin Agreements, the Corporation is required to:

i) meet the minimum (governmental) work commitments on EP127 and EP128 for the year 3 work program (beginning in June 2010), being the “acquisition of seismic data”;

ii) commence the drilling of one horizontal well into the basal Arthur Creek Shale zone on either of EP127 or EP128 by the first day of the 6th month of the year 3 work program; and

iii) commission a resource evaluation report in respect of EP127 and/or EP128, to be prepared by a reputable engineering firm of the Corporation’s choice, before the date that is 4 months after the date of the Baraka Farmin Agreement.

As at December 31, 2010, the Corporation had completed requirement (iii) above under the Baraka Farmin Agreements. The remaining commitments under the Baraka Farmin Agreement will be met in accordance with the EP 127 and EP 128 Minimum Work Plan Commitments below.

EP 127 Minimum Work Plan Commitments

In accordance with the terms of the EP 127 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
Year 1	December 14, 2007	December 13, 2008	Geological and geophysical studies	Completed
6 month extension and variation of license – March 17, 2010				
Year 2	December 14, 2008	June 13, 2010	Stratigraphic review Satellite structural and fracture image study	Completed
Year 3	June 14, 2010	December 13, 2011	Acquire seismic data	Outstanding
Year 4	June 14, 2011	December 13, 2012	Acquire seismic data Contingent on seismic results, drill one well	Outstanding
Year 5	June 14, 2012	December 13, 2013	Drill one well Contingent on Year 4 drilling, drill two wells	Outstanding

During the quarter, the Corporation requested the government of the Northern Territory of Australia suspend, extend and vary the Corporation's work program commitments to facilitate unforeseen operational delays caused by floodwaters. Subsequent to quarter end, the Corporation received confirmation from the government of the Northern Territory of Australia that its requests have been accepted.

EP 128 Minimum Work Plan Commitments

In accordance with the terms of the EP 128 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
Year 1	December 14, 2007	December 13, 2008	Geological and geophysical studies	Completed
6 month extension and variation of license – March 17, 2010				
Year 2	December 14, 2008	June 13, 2010	Stratigraphic review Satellite structural and fracture image study	Completed
Year 3	June 14, 2010	December 13, 2011	Acquire seismic data	Outstanding
Year 4	June 14, 2011	December 13, 2012	Acquire seismic data Contingent on seismic results, drill one well	Outstanding
Year 5	June 14, 2012	December 13, 2013	Drill one well Contingent on Year 4 drilling, drill two wells	Outstanding

During the quarter, the Corporation requested the government of the Northern Territory of Australia suspend and extend the Corporation's work program commitments to facilitate unforeseen operational delays caused by floodwaters. Subsequent to quarter end, the Corporation received confirmation from the government of the Northern Territory of Australia that its requests have been accepted.

The following table summarizes the remainder of the Corporation's commitments over the next five years as at September 30, 2011:

	Total	**2011**	**2012**	**2013**	**2014**	**2015**
Leases	87,549	23,029	64,520	-	-	-
	87,549	**23,029**	**64,520**	**-**	**-**	**-**

15. RECONCILIATIONS OF GAAP TO IFRS

This note explains the principle adjustments made by the Corporation in restating its GAAP consolidated statement of financial position as at September 30, 2010, and its GAAP consolidated statement of loss and comprehensive loss for the three and nine months ended September 30, 2010. The following are the significant accounting policies that the Corporation adopted under IFRS that resulted in transition adjustments and the IFRS 1 exemptions taken by the Corporation at January 1, 2010:

***Share-based payment transactions* –** exemption applied: the Corporation has elected to use the option under IFRS 1 to revalue only those options that were unvested at January 1, 2010. All unvested options have been revalued under IFRS 2, Share-Based Payment.

Cash flow statement – the transition from Canadian GAAP to IFRS has had no material effect upon the reported cash flows generated by the Corporation.

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT SEPTEMBER 30, 2010

	Notes	GAAP	IFRS Adjustments	IFRS
ASSETS				
Current				
Cash and cash equivalents		3,606,548	-	**3,606,548**
Restricted cash		2,197,972	-	**2,197,972**
Accounts receivable		123,790	-	**123,790**
Prepaid expenses and deposits		199,581	-	**199,581**
		6,127,891	-	**6,127,891**
Corporate assets		2,180	-	**2,180**
Exploration and evaluation assets		4,253,253	-	**4,253,253**
		10,383,324	-	**10,383,324**
LIABILITIES				
Current				
Accounts payable and accrued liabilities		866,934	-	**866,934**
SHAREHOLDERS' EQUITY				
Share capital		10,520,513	-	**10,520,513**
Contributed surplus	**15A**	642,601	(234)	**642,367**
Accumulated other comprehensive income		148,534	-	**148,534**
Deficit	**15A**	(1,795,258)	234	**(1,795,024)**
		9,516,390	-	**9,516,390**
		10,383,324	-	**10,383,324**

RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010

	Notes	GAAP	IFRS Adjustments	IFRS
EXPENSES				
General and administrative		258,486	-	**258,486**
Share-based compensation	**15A**	184,775	(40,267)	**144,508**
Depreciation		129	-	**129**
Results from operating activities		443,390	(40,267)	**403,123**
Finance income		12,352		**12,352**
Finance costs		(5,756)	-	**(5,756)**
Net finance income		6,596	-	**6,596**
NET LOSS		(436,794)	40,267	**(396,527)**
OTHER COMPREHENSIVE EARNINGS				
Foreign exchange loss on translation of foreign operations		(34,433)	-	**(34,433)**
COMPREHENSIVE LOSS		(471,227)	40,267	**(430,960)**

RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

	Notes	GAAP	IFRS Adjustments	IFRS
EXPENSES				
General and administrative		808,520	-	808,520
Share-based compensation	**15A**	472,780	(80,062)	392,718
Depreciation		383	-	383
Results from operating activities		1,281,683	(80,062)	1,201,621
Finance income		22,929	-	22,929
Finance costs		(7,447)	-	(7,447)
Net finance income		15,482	-	15,482
NET LOSS		(1,266,201)	80,062	(1,186,139)
OTHER COMPREHENSIVE EARNINGS				
Foreign exchange loss on translation of foreign operations		(137,074)	-	(137,074)
COMPREHENSIVE LOSS		(1,403,275)	80,062	(1,323,213)

Notes to the reconciliations

A. Share-based payments

Under Canadian GAAP, the Corporation recognized an expense related to share-based payments on a straight-line basis over the vesting period of the options. Under IFRS, the expense is calculated using graded vesting. The net result is an increase to contributed surplus and an increase to deficit.

B. Reverse takeover accounting

The accounting for the 2010 acquisition of Pendulum, a reverse takeover transaction, changed with the adoption of IFRS. As Pendulum had no non-monetary assets at the time of the amalgamation with the Corporation previous Canadian GAAP required that the transaction be accounted for as a capital transaction with the accounting value of the equity issued for the acquisition being limited to the fair value of the net monetary assets of the acquired entity. IFRS standards require the acquisition to be accounted for at fair value with the excess of the consideration paid over the fair value of the net monetary assets acquired being reflected as a deemed transaction cost expense. The fair value of the common shares issued on the acquisition has been restated to be $1,166,666 with the difference between the fair values of the consideration paid and the fair value of the acquired net monetary assets acquired, being $878,338, reflected as a 2010 listing expense.

16. SUBSEQUENT EVENTS

In July 2011, the Corporation announced that its Board of Directors adopted a Shareholder Rights Plan (the “Rights Plan”). This Rights Plan was adopted to ensure the fair treatment of shareholders in connection with any take-over offer for the Corporation, and to provide the Board of Directors and shareholders with additional time to fully consider an unsolicited take-over bid. The Rights Plan will also provide an opportunity, if appropriate, to pursue alternatives in order to maximize shareholder value. The Rights Plan was approved by the TSX Venture Exchange and by the shareholders of the Corporation at the Corporation’s annual general and special shareholders’ meeting held on November 10, 2011. The Rights Plan has a term of three years.