PetroFrontier

Annual Consolidated Financial Statements for the years ended December 31, 2015 and 2014

MANAGEMENT'S REPORT

To the Shareholders of PetroFrontier Corp.:

Management is responsible for the preparation of the accompanying consolidated financial statements. Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

PetroFrontier's external auditors, PricewaterhouseCoopers LLP, Chartered Professional Accountants, who are appointed by the shareholders, have audited the consolidated financial statements. The Audit Committee has reviewed the consolidated financial statements with management and the auditors and has recommended their approval to the Board of Directors. The Board of Directors has subsequently approved the consolidated financial statements.

"signed"

Earl P. Scott, P. Eng.
Chief Executive Officer

"signed"

Shane J. Kozak, CPA, CA
Vice President Finance and Chief Financial

Calgary, Canada
March 15, 2016

March 15, 2016

Independent Auditor's Report

To the Shareholders of PetroFrontier Corp.

We have audited the accompanying consolidated financial statements of PetroFrontier Corp., which comprise the consolidated statement of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PetroFrontier Corp. as at December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

PetroFrontier Corp.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Canadian Dollars)

As at	**December 31, 2015**	**December 31, 2014**
ASSETS		
Current		
Cash and cash equivalents	9,595,006	10,438,097
Accounts receivable	48,627	140,357
Prepaid expenses and deposits	37,800	43,675
	9,681,433	**10,622,129**
LIABILITIES		
Current		
Accounts payable and accrued liabilities	63,509	408,426
	63,509	408,426
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	125,952,046	125,952,046
Contributed surplus (Note 5)	11,048,889	11,016,003
Accumulated other comprehensive income (Note 5)	(5,267,967)	(5,458,569)
Deficit	(122,115,044)	(121,295,777)
	9,617,924	10,213,703
	9,681,433	**10,622,129**

See accompanying notes to the consolidated financial statements

Commitments and contingencies (Note 9)

Approved on behalf of the Board

"signed" "signed"

Robert Iverach
Director

Michael Hibberd
Director

PetroFrontier Corp.

CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

(Canadian Dollars)

	For the years ended December 31	
	2015	**2014**
EXPENSES		
General and administrative	880,564	1,918,927
(Gain)/loss on marketable securities	-	64,719
Foreign exchange gain	-	(280)
Share-based compensation (Note 5)	32,886	247,011
Impairment	-	40,302,333
Results from operating activities	**913,450**	**42,532,710**
Finance income	**94,183**	**244,170**
NET LOSS	**(819,267)**	**(42,288,540)**
OTHER COMPREHENSIVE EARNINGS		
Foreign exchange gain on foreign operations	190,602	1,036,905
COMPREHENSIVE LOSS	**(628,665)**	**(41,251,635)**

Net loss per share (Note 5)		
Basic and diluted	**0.01**	**0.53**

PetroFrontier Corp.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Canadian Dollars)

	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance at January 1, 2014	**125,952,046**	**1,220,886**	**9,548,106**	**(6,495,474)**	**(79,007,237)**	**51,218,327**
Net loss	-	-	-	-	(42,288,540)	(42,288,540)
Foreign exchange gain on translation of foreign operations	-	-	-	1,036,905	-	1,036,905
Expiry of warrants	-	(1,220,886)	1,220,886	-	-	-
Share-based compensation	-	-	247,011	-	-	247,011
Balance at December 31, 2014	**125,952,046**	**-**	**11,016,003**	**(5,458,569)**	**(121,295,777)**	**10,213,703**
Balance at January 1, 2015	**125,952,046**	**-**	**11,016,003**	**(5,458,569)**	**(121,295,777)**	**10,213,703**
Net loss	-	-	-	-	(819,267)	(819,267)
Foreign exchange gain on translation of foreign operations	-	-	-	190,602	-	190,602
Share-based compensation	-	-	32,886	-	-	32,886
Balance at December 31, 2015	**125,952,046**	**-**	**11,048,889**	**(5,267,967)**	**(122,115,044)**	**9,617,924**

See accompanying notes to the consolidated financial statements

PetroFrontier Corp.

CONSOLIDATION STATEMENT OF CASH FLOWS

(Canadian dollars)

	For the years ended December 31	
	2015	**2014**
Cash provided by (used in)		
OPERATING		
Net loss from continuing operations	(819,267)	(42,288,540)
Unrealized loss on marketable securities	-	64,719
Share-based compensation (Note 5)	32,886	247,011
Finance income	(94,183)	(244,170)
Impairment	-	40,302,333
Change in non-cash working capital (Note 6)	(5,082)	157,606
Cash flow from operating activities	**(885,646)**	**(1,761,041)**
INVESTING		
Exploration and evaluation expenditures	-	4,538,964
Interest received	94,183	244,170
Cash flow from investing activities	**94,183**	**4,783,134**
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(51,628)	(43,601)
Increase/(decrease) in cash and cash equivalents	(843,091)	2,978,492
Cash and cash equivalents and term deposits, beginning of year	10,438,097	7,459,605
Cash and cash equivalents, end of year	**9,595,006**	**10,438,097**

See accompanying notes to the consolidated financial statements

PetroFrontier Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

PetroFrontier Corp. (the "Corporation") was incorporated in Alberta, Canada on February 6, 2009 under the name Australia Energy Corp. 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 520, 1011 – 1st Street S.W. Calgary, Alberta, Canada T2R 1J2. The Corporation has been engaged in the business of petroleum exploration in the Northern Territory, Australia, through its two wholly owned subsidiaries, PetroFrontier (Australia) Pty Ltd ("PetroFrontier Australia") and Texalta (Australia) Pty Ltd ("Texalta Australia"). The consolidated financial statements of the Corporation as at and for the year ended December 31, 2015 comprises the Corporation, PetroFrontier Australia and Texalta Australia and unless otherwise indicated the term "Corporation" refers to both the Corporation and its wholly owned subsidiaries.

2. EXPLORATION STAGE CORPORATION

The Corporation has been an oil and gas exploration company engaged in the exploration, acquisition and development of both conventional and unconventional petroleum assets in Australia's Southern Georgina Basin. The Corporation is now focusing its attention on a number of new oil and gas exploration and development investment opportunities, all of which are still in the early stages of review.

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.

On March 2, 2015, the Corporation announced that it had retained GMP Securities L.P. ("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. On February 11, 2016, the Corporation announced that it had extended the term of its engagement with GMP as the Corporation's exclusive financial advisor, for an additional six months.

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's future commitments are disclosed in note 9.

3. BASIS OF PRESENTATION

A) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of December 31, 2015. On March 15, 2016, the Board of Directors approved the consolidated financial statements.

B) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except that the financial instruments held for trading are measured at fair value through profit or loss.

C) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. The functional currency of PetroFrontier Australia and Texalta Australia is the Australian dollar.

D) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Valuation of exploration and evaluation costs

IAS 36 Impairment of Assets and *IFRS 6 Exploration of and Evaluation of Mineral Resources* require that a review for impairment be carried out if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Exploration and evaluation assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. At this time, the recoverable amounts are determined with reference to fair value less cost of disposal. The key assumptions for the fair value less cost of disposal calculations are those regarding potential production flow rates and fiscal terms under the minimum work program commitments governing the Corporation's assets and expected changes to selling prices and direct costs during the period. These assumptions reflect management's best estimates based on historical experiences, past practices and expectations of future changes in the oil and gas industry.

Measurement of share-based payments

The Corporation issues stock options to certain directors, employees and third parties. In accordance with *IFRS 2 Share-based payments*, in determining the fair value of options granted, the Corporation has applied the Black-Scholes model and as a result makes assumptions for the expected volatility, expected life, risk free rate, behavioral considerations and expected dividend yield. The fair value of options granted at December 31, 2015 are shown in note 5.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

A) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Corporation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when the Corporation has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account.

(ii) Transactions eliminated on consolidation

All intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

B) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Corporation's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income in the cumulative translation account.

C) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

D) Financial instruments

Non-derivative financial instruments consist of cash and cash equivalents, deposits, accounts receivable, accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus any direct attributable transaction costs unless the non-derivative financial instrument is designated at fair value through profit or loss. Subsequent measurement is then based on each financial instrument being classified into one of five categories; held for trading, held to maturity, loans and receivables, available for sale and other liabilities. The Corporation has measured its accounts receivable, accounts payable and accrued liabilities at amortized cost using the effective interest rate method less any impairment losses. Cash and cash equivalents include cash on hand and deposits held with banks and other short-term highly liquid investments.

E) Exploration and evaluation assets

Exploration license and leasehold property acquisition costs, geological and geophysical costs and costs directly associated with an exploration well and appraisal activities are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the asset acquired. Intangible exploration costs do not include general prospecting or other evaluation costs incurred prior to receiving the legal rights to explore an area, which are expensed when incurred.

Exploration and evaluation costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the associated oil and gas interests. If no future activity is planned, the capitalized costs are expensed. Upon commercial viability, technical feasibility and internal approval for development, the related capitalized costs are first tested for impairment and then reclassified to property, plant and equipment. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved reserves are determined to exist.

F) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The Corporation uses the balance sheet method for calculating deferred income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability and the carrying amount on the balance sheet are used to calculate deferred income tax assets or liabilities. Deferred income tax assets or liabilities are calculated using the currently enacted, or substantively enacted, tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. A deferred income tax asset is recognized if it is probable that future taxable profit will be available which the Corporation can utilize the benefit. The effect of a change in income tax rates on deferred income tax assets and liabilities is recognized in the period that the change occurs. Interpretation of tax regulations and legislations in the jurisdictions in which the Corporation operates are subject to change, as such income taxes are subject to measurement uncertainty.

G) Per share amounts

The Corporation presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all potentially dilutive common shares, which comprise warrants and share options granted to employees.

H) Share-based compensation plan

The Corporation has a share-based compensation plan enabling officers and directors to purchase common shares at exercise prices equal to the price determined by the directors on the date the option is granted. Stock option awards are accounted for based on the fair value method of accounting (Note 5). Under this method, share-based compensation is recorded as an expense over the vesting period of the option, with a corresponding increase in contributed surplus. Share-based compensation is based on the estimated fair value of the related stock option at the time of the grant using the Black-Scholes option model. The Black-Scholes option model is based on significant assumptions such as volatility, dividend yield and expected term. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. When stock options are exercised, the consideration paid to the Corporation, along with amounts previously credited to contributed surplus, is credited to share capital.

I) Changes in accounting policies

There were no new or amended accounting standards or interpretations adopted during the year ended December 31, 2015.

J) Future accounting pronouncements

A number of new accounting standards, amendments to accounting standards and interpretations are effective for annual periods beginning on or after January 1, 2016 and have not been applied in preparing the Consolidated Financial Statements for the year ended December 31, 2015. The standards applicable to the Corporation are as follows and will be adopted on their respective effective dates:

(i) Leases

On January 13, 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16"), which requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements, and may continue to be treated as operating leases.

Lessors will continue with a dual lease classification model. Classification will determine how and when a lessor will recognize lease revenue, and what assets would be recorded.

IFRS 16 is effective for years beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 “Revenue From Contracts With Customers” has been adopted. The standard may be applied retrospectively or using a modified retrospective approach. The Corporation is currently evaluating the impact of adopting IFRS 16 on the Consolidated Financial Statements.

(ii) Financial Instruments

On July 24, 2014, the IASB issued the final version of IFRS 9, “Financial Instruments” (“IFRS 9”) to replace IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”).

IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements; however, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity’s own credit risk is recorded in Other Comprehensive Income/Loss rather than net earnings/losses, unless this creates an accounting mismatch. In addition, a new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS 39. The new model will result in more timely recognition of expected credit losses. IFRS 9 also includes a simplified hedge accounting model, aligning hedge accounting more closely with risk management. The Corporation does not currently apply hedge accounting.

IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Corporation is currently evaluating the impact of adopting IFRS 9 on the Consolidated Financial Statements.

5. SHARE CAPITAL

A) Authorized

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

B) Issued – common shares of PetroFrontier

	Year Ended December 31, 2015		Year Ended December 31, 2014	
	Number of shares	**Amount ($)**	**Number of shares**	**Amount ($)**
Common Shares				
Balance, beginning of year	79,600,768	125,952,046	79,600,768	125,952,046
Private placement, net of share issue costs (i)	-	-	-	-
Balance, end of year	**79,600,768**	**125,952,046**	**79,600,768**	**125,952,046**
Warrants				
Balance, beginning of year	-	-	15,384,615	1,220,886
Expiry of warrants	-	-	(15,384,615)	(1,220,886)
Balance, end of year	-	-	-	-

C) Warrants

During the year ended December 31, 2014, 15,384,615 warrants outstanding with strike prices of $0.90 per common share, expired out-of-the-money and as such none of these warrants were exercised. Accordingly, $1,220,886 was reclassified from warrants to contributed surplus as at December 31, 2014.

D) Stock options

Officers and directors of the Corporation have been granted options to purchase common shares. Options granted have a term of five years to expiry and typically 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 year ended December 31, 2015:

	Number of options	Weighted average price ($)
Balance, December 31, 2014	5,790,000	0.92
Granted	-	-
Expired	(620,000)	1.76
Forfeited	(1,860,000)	0.99
Balance, December 31, 2015	**3,310,000**	**0.72**

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2015.

	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**
$0.18	2,500,000	2.8	$0.18	2,500,000	$0.18
$1.99	500,000	1.1	$1.99	500,000	$1.99
$3.05	310,000	0.4	$3.05	310,000	$3.05
	3,310,000	**2.3**	**$0.72**	**3,310,000**	**$0.72**

E) Share-Based Compensation

The following table summarizes the changes in contributed surplus:

	December 31, 2015 ($)	December 31, 2014 ($)
Balance, beginning of year	11,016,003	9,548,106
Share-based compensation expense	32,886	247,011
Expiry of warrants	-	1,220,886
Balance, end of year	**11,048,889**	**11,016,003**

No options were granted during the years ended December 31, 2015 and 2014.

F) Per common share amounts

The basic weighted average number of common shares outstanding for the years ended December 31, 2015 and 2014 were 79,600,768. As the Corporation has recorded a loss for the years ended December 31, 2015 and 2014, 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. For the years ended December 31, 2015 and 2014 no options were in-the-money.

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 the light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Corporation considers its capital structure to include shareholders' equity and working capital.

As the Corporation 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. In order to adjust the capital structure, the Corporation may from time to time issue shares and/or adjust its capital spending levels.

With current working capital on hand, the Corporation has adequate funding to provide for general operations and to meet the Corporation's future commitments for a period of at least 12 months. The Corporation's future commitments are disclosed in note 9.

6. Supplemental Cash Flow Information

Changes in non-cash working capital

	Year ended December 31, 2015 ($)	**Year ended December 31, 2014 ($)**
Accounts receivable	91,730	1,454,727
Prepaid expenses and deposits	5,875	(5,325)
Accounts payables and accrued liabilities	(344,917)	(1,243,211)
Other	242,230	(48,585)
Change in non-cash working capital	**(5,082)**	**157,606**

During the years ended December 31, 2015 and 2014, the cash interest received by the Corporation totaled $94,183 and $244,170, respectively.

7. DEFERRED TAX ASSET

The recovery of income taxes differs from the amount computed by applying the combined statutory Canadian federal and provincial tax rates to losses before income taxes as follows:

	Year ended December 31, 2015 ($)	**Year ended December 31, 2014** ($)
Net loss before taxes	(819,267)	(42,288,540)
Statutory income tax rate	26.0%	25.0%
Expected recovery	(213,091)	(10,572,135)
Add (deduct):		
Non-deductible stock based compensation	8,554	61,753
Change in enacted tax rates	(161,022)	
Research & development tax incentives and other adjustments	-	1,289, 879
True up	83,919	103,488
Foreign tax rate differential	(3,072)	(1,463,902)
Other	-	47
Change in deferred tax benefits deemed not probable to be recovered	284,712	10,580,870
Deferred income tax recovery	-	-

The following is a summary of the Corporation's deferred tax asset as at December 31, 2015 and 2014:

	2015		**2014**	
Deferred income tax assets / (liabilities)	**Australia ($)**	**Canada ($)**	**Australia ($)**	**Canada ($)**
Non-capital loss	14,904,530	2,269,865	14,013,317	1,848,470
Share issue costs		4,336	-	70,789
Exploration and evaluation assets and corporate assets	-	-	-	25
(Gain)/loss on marketable securities	-	-	-	944
Unrecognized deferred tax assets	(14,904,530)	(2,274,201)	(14,013,317)	(1,920,228)
Total	-	-	-	-

The Corporation has non-capital losses as at December 31, 2015 of approximately $49.7 million (2014 - $49.2 million) in Australia which have no expiry and $8.4 million (2014 - $7.4 million) in Canada which expire between 2030 and 2035. 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.

The following table summarizes the movement in the recognized and unrecognized deferred tax assets and liabilities during the year:

	January 1, 2014 ($)	Change in temporary difference ($)	December 31, 2014 ($)
Non-capital loss	18,437,840	(2,576,053)	15,861,787
Share issue costs	256,959	(186,170)	70,789
Exploration and evaluation assets and corporate assets	(13,326,888)	13,326,913	25
(Gain)/loss on marketable securities	(15,236)	16,180	944
Unrecognized deferred tax assets	(5,352,675)	(10,580,870)	(15,933,545)
	-	-	-

	January 1, 2015 ($)	Change in temporary difference ($)	December 31, 2015 ($)
Non-capital loss	15,861,787	1,312,608	17,174,395
Share issue costs	70,789	(66,453)	4,336
Exploration and evaluation assets and corporate assets	25	(25)	-
(Gain)/loss on marketable securities	944	(944)	-
Unrecognized deferred tax assets	(15,933,545)	(1,112,730)	(17,178,731)
	-	-	-

8. FINANCIAL INSTRUMENTS

Fair value of financial instruments

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

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 cash and cash equivalents, 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.

Credit risk

The Corporation's accounts receivable is limited to amounts largely pertaining to 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 December 31, 2015, the Corporation's cash and cash equivalents included $198,043 denominated in Australian dollars (December 31, 2014 – $5,494,200). Management continually monitors the Corporation's currency risk and believes this exposure is not material to its overall operations.

Interest rate risk

At December 31, 2015 and 2014, 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 and accrued liabilities, all of which are current in nature. 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.

With current working capital on hand, the Corporation has adequate funding to provide for general operations and to meet the Corporation's future commitments for a period of at least 12 months. The Corporation's future commitments are disclosed in note 9.

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 December 31, 2015 and 2014 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.

9. COMMITMENTS AND CONTINGENCIES

Australian Acreage

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

Office lease

As at December 31, 2015, the Corporation had the following office lease commitments:

	2016 ($)	2017 ($)	Total ($)
Office lease commitments	71,157	6,238	**77,395**
	71,157	6,238	**77,395**

During the year ended December 31, 2015, the Corporation expensed $78,892 relating to operating leases it maintained throughout the periods (December 31, 2014 - $71,270).

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

10. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	Year ended December 31	
	2015 ($)	2014 ($)
Salaries, directors fees and other benefits	421,667	550,000
Share-based compensation	32,886	248,713
	454,553	**798,713**

Key management personnel are comprised of the Corporation's directors and executive officers.

NOTES *(continued)*

11. EXPENSES BY NATURE

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

	Year ended December 31	
	2015 ($)	**2014 ($)**
Salaries and benefits	502,311	635,574
Office costs	105,409	141,771
Professional fees	254,930	1,032,821
Corporate and regulatory	17,914	108,761
	880,564	**1,918,927**

12. SEGMENTED INFORMATION

The Corporation's Australian segment ceased any substantive operations during the year ended December 31, 2015. However, for the year ended December 31, 2014 the Corporation had two foreign subsidiaries and the following geographical segmented information is provided:

	Year ended December 31, 2014	
	Canada ($)	**Australia ($)**
EXPENSES		
General and administrative	1,420,105	498,822
Gain/(loss) on marketable securities	64,719	-
Foreign exchange gain	(280)	-
Share-based compensation (Note 5)	247,011	-
Depreciation	-	-
Impairment	-	40,302,333
Results from operating activities	**1,731,555**	**40,801,155**
Finance income	52,819	191,351
Finance costs	-	-
Net finance income	**52,819**	**191,351**
Net loss before taxes	(1,678,736)	(40,609,804)
Deferred tax recovery (Note 7)	-	-
NET LOSS	**(1,678,736)**	**(40,609,804)**
Exploration and evaluation assets (end of year)	-	-
Research & development tax incentives and other adjustments	-	4,538,964
Total assets (end of year)	5,384,273	5,237,856

13. SUBSEQUENT EVENTS

On February 11, 2016, the Corporation announced that it had extended the term of its engagement with GMP as the Corporation's exclusive financial advisor, for an additional six months.

NOTES *(continued)*

Directors

Robert J. Iverach
Chairman of the Board of Directors
Calgary, Alberta

Earl P. Scott
President and Chief Executive Officer
PetroFrontier Corp.
Calgary, Alberta

Al Kroontje
Businessman
Calgary, Alberta

Michael Hibberd
Businessman
Calgary, Alberta

Paul Cheung
Businessman
Calgary, Alberta

Officers

Earl P. Scott
President and Chief Executive Officer

Shane J. Kozak
Vice President Finance and
Chief Financial Officer

Corporate Head Office

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

Trustee and Transfer Agent

Computershare Trust Company

Solicitors

Burstall Winger Zammit LLP

Auditors

PricewaterhouseCoopers LLP