PetroFrontier

Condensed Consolidated
Interim Financial Statements
June 30, 2016

SECOND QUARTER 2016 CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed interim consolidated financial statements for the period ended June 30, 2016.

NOTICE TO READER OF THE INTERIM FINANCIAL STATEMENTS

The condensed interim consolidated financial statements of PetroFrontier Corp. comprising the accompanying condensed consolidated statement of financial position as at June 30, 2016 and the condensed consolidated statement of loss and comprehensive loss, changes in equity and cash flows for the six and three month periods then ended are the responsibility of the Company's management.

These consolidated financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, PricewaterhouseCoopers LLP. The condensed interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these consolidated financial statements in accordance with International Financial Reporting Standards.

Signed: "Robert Iverach"	signed: "Robert Gillies"
Robert Iverach Chief Executive Officer	Robert Gillies Chief Financial Officer

PetroFrontier Corp.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

(Canadian Dollars)

As at	**June 30, 2016**	**December 31, 2015**
ASSETS		
Current		
Cash	8,284,537	9,595,006
Accounts receivable	12,985	48,627
Note receivable (Note 4)	525,000	-
Prepaid expenses and deposits	20,903	37,800
	8,843,425	**9,681,433**
LIABILITIES		
Current		
Accounts payable and accrued liabilities	85,020	63,509
	85,020	63,509
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	125,952,046	125,952,046
Contributed surplus	11,048,889	11,048,889
Accumulated other comprehensive income	(5,275,879)	(5,267,967)
Deficit	(122,966,651)	(122,115,044)
	8,758,405	9,617,924
	8,843,425	**9,681,433**

See accompanying notes to the condensed consolidated interim financial statements

Commitments and contingencies (Note 8)
Subsequent events (Note 11)

PetroFrontier Corp.

CONDENSED CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

(Unaudited)

(Canadian Dollars)

	Three months ended June 30		Six months ended June 30	
	2016	**2015**	**2016**	**2015**
EXPENSES				
General and administrative (note 9)	179,169	270,218	881,796	522,365
Foreign exchange gain	(2,696)	-	-	-
Share-based compensation/(recovery)	-	(9,209)	-	11,543
Results from operating activities	**176,473**	**261,009**	**881,796**	**533,908**
Finance income	14,840	22,157	30,189	56,834
NET LOSS	**(161,633)**	**(238,852)**	**(851,607)**	**(477,074)**
OTHER COMPREHENSIVE EARNINGS				
Items that may be reclassified subsequently to net income (loss):				
Foreign exchange gain/(loss) on foreign operations	(7,912)	461	(7,912)	170,212
COMPREHENSIVE LOSS	**(169,545)**	**(238,391)**	**(859,519)**	**(306,862)**
Net loss per share				
Basic and diluted (note 5)	**(0.00)**	**(0.00)**	**(0.01)**	**(0.01)**

See accompanying notes to the condensed consolidated interim financial statements

PetroFrontier Corp.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

(Canadian Dollars)

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance at January 1, 2016	**125,952,046**	**11,048,889**	**(5,267,967)**	**(122,115,044)**	**9,617,924**
Net loss	-	-	-	(851,607)	(851,607)
Foreign exchange gain on translation of foreign operations	-	-	(7,912)	-	(7,912)
Balance at June 30, 2016	**125,952,046**	**11,048,889**	**(5,275,879)**	**(122,966,651)**	**8,758,405**
Balance at January 1, 2015	**125,952,046**	**11,016,003**	**(5,458,569)**	**(121,295,777)**	**10,213,703**
Net loss	-	-	-	(477,074)	(477,074)
Foreign exchange gain on translation of foreign operations	-	-	170,212	-	170,212
Share-based compensation	-	11,543	-	-	11,543
Balance at June 30, 2015	**125,952,046**	**11,027,546**	**(5,288,357)**	**(121,772,851)**	**9,918,384**

See accompanying notes to the condensed consolidated interim financial statements

PetroFrontier Corp.

CONDENSED CONSOLIDATION STATEMENT OF CASH FLOW

(Unaudited)

(Canadian dollars)

	For the six months ended June 30	
	2016	**2015**
Cash provided by (used in)		
OPERATING		
Net loss	(851,607)	(477,074)
Share-based compensation	-	11,543
Finance income	(30,189)	(56,834)
Change in non-cash working capital (Note 6)	74,050	1,990
Cash flow used in operating activities	**(807,746)**	**(520,375)**
INVESTING		
Interest received	30,189	56,834
Issuance of note receivable (note 4)	(525,000)	-
Cash flow (used in) from investing activities	**(494,811)**	**56,834**
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(7,912)	(51,113)
Decrease in cash and cash equivalents	(1,310,469)	(514,654)
Cash, beginning of year	9,595,006	10,438,097
Cash, end of period	**8,284,537**	**9,923,443**

See accompanying notes to the 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. 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 is engaged in exploring for petroleum and natural gas (Subsequent events – note 11). The Corporation had previously 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 condensed consolidated interim financial statements of the Corporation as at and for the six and three months ended June 30, 2016 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 had 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. On July 21, 2016, the Corporation announced that it had acquired certain resource assets in the Cold Lake area of northeastern Alberta ("Assets") from Kasten Energy Inc. ("Kasten"). The acquisition is further described in note 11, Subsequent Events.

The Corporation in no longer actively involved in Australia due to the lack of exploratory potential of its exploration and evaluation assets. As such the carrying value of its exploration and evaluation assets in Australia was written off in 2014.

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in section I of the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"); which requires publicly accountable enterprises to prepare their financial statements using International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These condensed consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, IAS 34 – *Interim financial reporting ("IAS 34").*

The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and outstanding as of August 24, 2016, the date the condensed consolidated interim financial statements were approved by the Corporation's Board of Directors for issuance. The policies applied are consistent throughout all periods presented in these condensed consolidated interim financial statements.

These condensed consolidated interim financial statements should be read in conjunction with the Corporation's 2015 annual consolidated financial statements.

As indicated in note 1 above, these condensed consolidated interim financial statements of the Corporation as at and for the six and three months ended June 30, 2016 comprise those of the Corporation, PetroFrontier Australia and Texalta Australia.

These condensed consolidated interim 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.

4. NOTE RECEIVABLE

On June 28, 2016, the Corporation loaned $525,000 to Kasten. In return, the Corporation received a note receivable that bore interest at 8% per annum and was secured by the Assets. The note receivable was repaid in full at the closing of the acquisition of the Assets on July 21, 2016.

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

	Six Months Ended June 30, 2016		Year Ended December 31, 2015	
	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
Balance, end of period	**79,600,768**	**125,952,046**	**79,600,768**	**125,952,046**

C) 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 and six months ended June 30, 2016:

	Number of options	**Weighted average price ($)**
Balance, December 31, 2014	5,790,000	0.92
Expired	(620,000)	1.76
Forfeited	(1,860,000)	0.99
Balance, December 31, 2015	**3,310,000**	**0.72**
Expired	(160,000)	3.05
Forfeited	(2,050,000)	0.83
Balance, June 30, 2016	**1,100,000**	**0.18**

The following table summarizes stock options outstanding and exercisable under the plan at June 30, 2016.

	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	1,100,000	2.3	$0.18	1,100,000	$0.18

D) Per common share amounts

The basic weighted average number of common shares outstanding for the six and three months ended June 30, 2016 and 2015 were 79,600,768. As the Corporation has recorded a loss for the six and three months ended June 30, 2016 and 2015, no addition is made to the basic weighted average number of common shares when calculating diluted weighted average number of common shares as the diluted per common share amounts are anti-dilutive. For the six and three months ended June 30, 2016 and 2015 no options were in-the-money.

E) 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 8.

6. Supplemental Cash Flow Information

Changes in non-cash working capital

	Six months ended June 30 ($)	
	2016	**2015**
Accounts receivable	35,642	94,000
Prepaid expenses and deposits	16,897	15,046
Accounts payables and accrued liabilities	21,511	(328,381)
Other	-	221,325
Change in non-cash working capital	**74,050**	**1,990**

7. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The Corporation's financial instruments recognized in the statement of financial position consist of cash, accounts receivable, note receivable, deposits, 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, note receivable, accounts payable and accrued liabilities approximate their carrying amounts due to their short-terms to maturity.

Credit risk

The Corporation's accounts receivable is limited to amounts largely pertaining to income tax credits on goods and services taxes 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 June 30, 2016, the Corporation's cash and cash equivalents included $184,590 denominated in Australian dollars (December 31, 2015 – $198,043). Management continually monitors the Corporation's currency risk and believes this exposure is not material to its overall operations.

Interest rate risk

At June 30, 2016 and December 31, 2015, 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 may be dependent upon the Corporation's capacity to secure additional 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 8.

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 June 30, 2016 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.

8. COMMITMENTS AND CONTINGENCIES

Australian Acreage

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

Office lease

As at June 30, 2016, the Corporation had the following office lease commitments:

	2016 ($)	**2017 ($)**	**Total ($)**
Office lease commitments	35,578	6,238	**41,186**

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 defense of the Counterclaim.

NOTES *(continued)*

9. EXPENSES BY NATURE

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

	Three months ended June 30		Six months ended June 30	
	2016 ($)	2015 ($)	2016 ($)	2015 ($)
Salaries and benefits	16,357	126,397	149,444	265,983
Severance costs	-	-	465,000	-
Office costs	45,445	60,106	99,509	104,756
Professional fees	75,423	61,847	114,938	123,553
Corporate and regulatory	41,944	21,868	52,905	28,073
	179,169	**270,218**	**881,796**	**522,365**

Included in the general and administrative expenses to June 30, 2016 is approximately $525,500 relating to costs incurred regarding the acquisition of the Assets as described in note 11, Subsequent Events.

The severance costs of $465,000 were paid to former officers of the Corporation.

10. RELATED PARTIES

During the six months ended June 30, 2016, the Corporation had the following related party transactions:

- severance costs of $465,000 were paid to former officers (note 9).
- the Corporation loaned $525,000 to Kasten (note 4). The parties are related as a director of the Corporation is also an officer of Kasten.

11. SUBSEQUENT EVENTS

On July 21, 2016 the Corporation closed the purchase of the Assets from Kasten.

The acquisition price was approximately $17,490,000 for the Assets payable as follows:

(a) by the issuance of 70,000,000 common shares of PetroFrontier Corp. at a deemed value of $0.157 per share;

(b) by the payment of $3,500,000 in cash at closing, net of the secured loan in the amount of $525,000 (note 4), which was advanced to Kasten on June 28, 2016; and

(c) by the issuance by PetroFrontier of a secured debenture in the amount of $3,000,000 in favor of Kasten, which may be convertible into common shares of PetroFrontier Corp. at a price of $0.157 per common share under certain conditions.

This acquisition was effective as of June 1, 2016. The determination and allocation of the purchase price is indeterminable at this time and will be included in the third quarter financial statements.

In addition, on July 31, 2016, the Corporation granted 12,800,000 stock options to officers and directors of the Corporation. The stock options were issued with an exercise price of $0.16 per share, have five year term and vest as to 40% at the date of grant and 30% on each of the first and second anniversaries of the date of grant.

Directors	***Officers***	***Corporate Head Office***
Robert J. Iverach Chairman of the Board of Directors Calgary, Alberta Al Kroontje Businessman Calgary, Alberta Michael Hibberd Businessman Calgary, Alberta Paul Cheung Businessman Calgary, Alberta Kelly Kimbley President Calgary, Alberta	Robert J. Iverach Chief Executive Officer Kelly Kimbley President Robert L. Gillies Vice-President Finance, Secretary and Chief Financial Officer Ulrich Wirth Vice-President Explorations Omar El-Hajjar Vice-President Operations David Orr Vice-President Business Development	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