PetroFrontier

Condensed Consolidated
Interim Financial Statements
September 30, 2016

THIRD 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 September 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 September 30, 2016 and the condensed consolidated statement of loss and comprehensive loss, changes in equity and cash flows for the nine 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	**September 30, 2016**	**December 31, 2015**
ASSETS		
Current		
Cash	4,477,361	9,595,006
Trade and other receivables	574,215	48,627
Prepaid expenses and deposits	170,210	37,800
	5,221,786	9,681,433
Property and equipment (note 5)	14,704,150	-
	19,925,936	9,681,433
LIABILITIES		
Current		
Trade and other payables	844,519	63,509
Purchase price consideration payable (note 4)	345,748	-
	1,190,267	63,509
Debenture (note 6)	2,633,046	-
Decommissioning liabilities (note 7)	2,942,434	-
	6,765,747	63,509
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	131,202,046	125,952,046
Contributed surplus	11,273,752	11,048,889
Accumulated other comprehensive income	(5,267,967)	(5,267,967)
Deficit	(124,047,642)	(122,115,044)
	13,160,189	9,617,924
	19,925,936	**9,681,433**

See accompanying notes to the condensed consolidated interim financial statements

Commitments and contingencies (Note 11)

PetroFrontier Corp.

CONDENSED CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

(Unaudited)

(Canadian Dollars)

	Three months ended September 30		Nine months ended September 30	
	2016	**2015**	**2016**	**2015**
PETROLEUM REVENUE	558,142	-	558,142	-
Less: royalties	(52,275)	-	(52,275)	-
	505,867	**-**	**505,867**	**-**
EXPENSES				
Production operating costs	471,001	-	471,001	-
General and administrative (note 12)	729,401	162,809	1,611,197	685,174
Foreign exchange	1,915	-	1,915	-
Depletion and depreciation (note 5)	84,566	-	84,566	-
Accretion (note 7)	49,844	-	49,844	-
Share-based compensation (note 8)	224,863	16,906	224,863	28,449
	1,561,590	**179,715**	**2,443,386**	**713,623**
Finance income	(12,777)	(19,465)	(42,966)	(76,299)
Finance expense	38,045	-	38,045	-
	25,268	**(19,465)**	**(4,921)**	**(76,299)**
NET LOSS	**(1,080,991)**	**(160,250)**	**(1,932,598)**	**(637,324)**
OTHER COMPREHENSIVE EARNINGS				
Items that may be reclassified subsequently to net income (loss):				
Foreign exchange gain on foreign operations	7,912	6,298	-	176,510
COMPREHENSIVE LOSS	**(1,073,079)**	**(153,952)**	**(1,932,598)**	**(460,814)**
Net loss per share				
Basic and diluted (note 8)	**(0.01)**	**(0.00)**	**(0.02)**	**(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	-	-	-	(1,932,598)	(1,932,598)
Issuance of common shares (note 4)	5,250,000	-	-	-	5,250,000
Share-based compensation (note 8)	-	224,863	-	-	224,863
Balance at September 30, 2016	**131,202,046**	**11,273,752**	**(5,267,967)**	**(124,047,642)**	**13,,160,189**
Balance at January 1, 2015	**125,952,046**	**11,016,003**	**(5,458,569)**	**(121,295,777)**	**10,213,703**
Net loss	-	-	-	(637,324)	(637,324)
Foreign exchange gain on translation of foreign operations	-	-	176,510	-	176,510
Share-based compensation	-	28,449	-	-	28,449
Balance at September 30, 2016	**125,952,046**	**11,044,452**	**(5,282,059)**	**(121,933,101)**	**9,781,338**

See accompanying notes to the condensed consolidated interim financial statements

PetroFrontier Corp.

CONDENSED CONSOLIDATION STATEMENT OF CASH FLOW

(Unaudited)

(Canadian dollars)

	For the nine months ended September 30	
	2016	**2015**
Cash provided by (used in)		
OPERATING		
Net loss	(1,932,598)	(637,324)
Share-based compensation	224,863	28,449
Finance income	(42,966)	(76,299)
Finance expense	38,045	-
Depletion and depreciation	84,566	-
Accretion	49,844	-
Change in non-cash working capital (Note 9)	40,982	31,207
Cash flow used in operating activities	**(1,537,264)**	**(653,967)**
INVESTING		
Acquisition of resource properties (note 4)	(3,500,000)	-
Property and equipment payments	(108,347)	-
Interest received	42,966	76,299
Interest paid	(15,000)	-
Cash flow (used in) from investing activities	**(3,580,381)**	**76,299**
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	-	(51,481)
Decrease in cash and cash equivalents	(5,117,645)	(629,149)
Cash, beginning of year	9,595,006	10,438,097
Cash, end of period	**4,477,361**	**9,808,948**

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 900, 903 – 8th Ave. S.W. Calgary, Alberta, Canada T2P 0P7. The Corporation is engaged in exploring for and the production of petroleum and natural gas (note 4). 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 nine and three months ended September 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. CORPORATE INFORMATION

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 from Kasten Energy Inc. ("Kasten"). The acquisition is further described in note 4.

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 November 22, 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 nine and three months ended September 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.

The new accounting policies adopted by the corporation with the acquisition of the business as described in note 4 are as follows:

Business combinations

The acquisition method of accounting is used to account for acquisitions of subsidiaries or purchased assets which constitute a business. The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of comprehensive loss.

Transaction costs incurred in a business combination, other than those associated with the issuance of debt or equity securities, are expensed as incurred.

Joint operations and jointly held assets

Some of the Company's petroleum and natural gas properties are jointly held assets. The financial statements include the Company's share of these jointly held assets and a proportionate share of the relevant revenue and related costs.

Property and equipment

Property and equipment is comprised of oil and gas assets, computer equipment, office equipment and furniture. Oil and gas properties are stated at cost, less any accumulated depletion, depreciation and accumulated impairment losses. These properties and equipment include oil and natural gas development and production assets, which represent costs incurred in developing oil and natural gas reserves and maintaining or enhancing production from such reserves. Future decommissioning liabilities related to producing assets are also capitalized to property and equipment.

Oil and gas properties are not depreciated until commercial production commences. The net carrying value of oil and gas assets is depleted using the unit-of-production method based on estimated proven and probable oil and gas reserves. The depletion calculation takes account of the estimated future development costs of the recognized proved plus probable reserves.

Proven and probable reserves are determined by independent engineers in accordance with Canadian National Instrument 51-101. Production and reserves of natural gas are converted to equivalent barrels of crude oil based on six thousand cubic feet of gas to one barrel of oil. Changes in estimates of proved and probable reserves used in prior periods that affect the unit-of-production calculations do not give rise to prior year adjustments and are dealt with on a prospective basis.

Values of oil and gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of asset may not be recoverable. If any such indication of impairment exists, an estimate of the recoverable amount is calculated. Individual assets are grouped, for the purposes of impairment testing, together into the smallest group of assets or group of assets that generates cash flows that are largely independent of the cash flows of other assets or group of assets (the cash generating unit or CGU). A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of a CGU exceeds it recoverable amount, the CGU is considered impaired and is written-down to its recoverable amount.

The recoverable amount is the greater of the value in use or fair value less costs to sell. Fair value is the amount the asset could be sold for in an arm's length transaction. The value in use is the present value of the estimated future cash flows of the asset from its continued use. The fair value less costs to sell considers the continued development of a property and market transactions in a valuation model. The Company uses the present value of the cash generating unit's estimated future cash flows from both proved and probable reserves in its fair value model. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

Computer equipment, office equipment and furniture are recorded at cost. The straight-line method of depreciation is used to depreciate the cost of these assets over their estimated useful lives, being three years.

Exploration and evaluation

Exploration and evaluation ("E&E") costs are capitalized for projects after the Company has acquired the legal right to explore but prior to their technical feasibility and commercial viability being confirmed, generally determined as the establishment of proved or probable reserves. These costs may include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, directly attributable overhead and administration expenses, including remuneration of production personnel and supervisory management, the projected costs of retiring the assets, and any activities in relation to evaluating the technical feasibility and commercial viability of extracting mineral resources.

Once technical feasibility and commercial viability are confirmed, the E&E asset is then reclassified to property, plant and equipment and tested for impairment. For purposes of impairment testing, E&E assets are allocated to the appropriate cash-generating units based on geographic proximity.

Expired lease costs are expensed as part of impairment expense as they occur and costs incurred prior to the legal right to explore are charged to net income (loss).

Decommissioning liabilities

The Company provides for future decommissioning liabilities related to its oil and gas operating activities based on current legislation, constructive obligation and industry operating practices. Decommissioning liabilities are recognized as a liability in the period in which they are incurred. Decommissioning liabilities are measured as the present value of management's best estimate of the expenditure required to settle the asset retirement liability at the reporting date using a credit adjusted discount rate. When the liability is initially recognized, an amount equivalent to the provision is capitalized as a cost of the related oil and gas asset. This cost is amortized to expense through depletion and depreciation over the life of the related asset on a unit-of-production basis. Subsequent to initial measurement, the liability is adjusted at the end of each period to reflect the passage of time and changes in the estimated future costs underlying the liability. The increase in the balance due to the passage of time is charged as a finance costs whereas increases or decreases due to changes in the estimated future costs are capitalized. Actual costs incurred upon settlement of the decommissioning liability are charged against the liability or expense if greater than the liability.

Financial instruments

Financial instruments are comprised of cash, trade and other receivables, trade and other payables and a debenture. Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or when the Company has transferred all risks and rewards of ownership**.**

a. Financial assets

Financial assets are measured at fair value on initial recognition of the instrument. Financial assets are classified as “available-for-sale-investments”, “held-for-trading” or “loans and receivables”.

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company has no assets in this category.

Held-for-trading is financial assets and liabilities which are acquired for resale prior to maturity or are designated as such by the Company. The Company has no assets in this category.

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. The Company’s loan and receivables are comprised of cash and trade and other receivables.

Loans and receivables are recognized initially at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value.

Financial assets are assessed for indicators of impairment at each financial reporting date and are impaired when there is objective evidence that the estimated future cash flow has been impacted.

b. Financial liabilities

Financial liabilities include trade and other payables and the debenture payable. Financial liabilities are recognized on an accrual basis and are stated initially at fair value and subsequently measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Revenue recognition

Revenue associated with the sales of the Company’s crude oil owned by the Company is recognized when title passes from the Company to its customer and collection is reasonably assured. This generally occurs when product is physically transferred into a vessel, pipe or other delivery mechanism.

Convertible debentures

Compound financial instruments issued by the Company comprise convertible debentures that can be converted into common shares of the Company. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry, where this is transferred to common shares or contributed surplus.

Earnings per share

Earnings per share are calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The Company's potentially dilutive common shares include convertible debentures convertible into common shares and stock options granted to employees and directors. It is assumed that any proceeds obtained on the exercise of any options or warrants would be used to purchase common shares at the average price during the period.

4. BUSINESS COMBINATION

On July 21, 2016, the Corporation, acquired certain resource assets of Kasten Energy Inc. ("Kasten Assets") in western Canada for a total fair value consideration for accounting purposes of $11,705,748.

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

(a) by the issuance of 70,000,000 common shares of PetroFrontier 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 which was advanced to Kasten on June 28, 2016; and

(c) by the issuance by PetroFrontier of a secured convertible debenture in the face amount of $3,000,000 in favor of Kasten; and

(d) by an adjustment for certain working capital items and operations for period from the effective date of June 1, 2016 to the closing date of July 21, 2016.

The acquisition was accounted for using the acquisition method whereby the assets acquired and liabilities assumed were recorded at fair value. Subsequent to the date of acquisition, the operating results of the Kasten Assets have been included in the Company's consolidated operating results. The allocations and determinations of the purchase price allocation are preliminary and subject to change upon final adjustments.

Consideration		Deemed value		Fair value
Cash	$	3,500,000	$	3,500,000
Purchase price consideration payable		-		345,748
Issuance of debenture		3,000,000		2,610,000
Issuance of 70,000,000 common shares		10,990,000		5,250,000
	$	17,490,000	$	11,705,748

Purchase price allocation;		
Prepaid expenses	$	181,999
Petroleum and natural gas assets		14,431,902
Decommissioning liabilities		(2,908,153)
	$	11,705,748

The Corporation had been an oil and gas exploration company engaged in the exploration, acquisition and development of petroleum assets in Australia's Southern Georgina Basin but abandoned that area due to the lack of exploratory potential of its exploration and evaluation assets. The Corporation then acquired the Kasten Assets.

From the date of acquisition, the Kasten assets have contributed $558,142 in revenue and earned a loss before income taxes of $99,544. If the acquisition had been completed on January 1, 2016, the estimated revenue and earnings before tax for the nine months ended would have been $554,903 and $272,796, respectively**.**

The Company has incurred costs of approximately $512,000 related to this acquisition which have been included in the consolidated statements of net and comprehensive loss.

5. PROPERTY AND EQUIPMENT

		2016
Cost, beginning of year	**$**	**-**
Acquired on acquisition		14,431,902
Additions during the year		372,377
Revisions to decommissioning liabilities		(15,563)
Cost, end of period		14,788,716
Accumulated depletion, beginning of year		-
Depreciation and depletion		84,566
Accumulated depletion, end of period		84,566
Carrying value, end of period	**$**	**14,704,150**

6. DEBENTURE PAYABLE

On July 21, 2016, the Company issued a 3% secured convertible debenture in the principal amount of $3,000,000 to Kasten (note 4). The debenture matures no later than June 30, 2019, is secured against the property of the Company with interest payable monthly.

The Corporation may redeem the debenture prior to maturity as follows:

- By a cash payment of the principal and interest outstanding at the time or;
- By the issuance of common shares at a conversion price of $0.157 if the Corporation has completed a minimum $2,000,000 flow-through private placement (“FT Placement”) of common shares (“FT Shares”) on or before June 30, 2018 at a price of not less than $0.157 per FT Share and the average price of WTI crude as quoted on NMYEX is the USD$50 (for the 20-day period ending five days before the repayment date).

The holder of the debenture may convert the debenture at any time prior to maturity if the FT Placement has been completed. The conversion price into common shares shall not be less than the Market Price, as defined by regulatory authorities, on the day of conversion.

For accounting purposes, the debenture has been separated into their liability and equity component using the effective interest rate method. The effective interest rate method was based on the estimated rate for a debenture without a conversion feature. The fair value of the convertible debenture was allocated to the liability, $2,610,000 based on the fair value of the liability component, which was determined using future cash flows discounted at a rate of 8%. The equity component, $390,000 will be amortized to the Statements of Comprehensive Loss over the life of the debenture.

7. DECOMMISSIONING LIABILITY

The Company’s total decommissioning liability is estimated based on the Company’s net ownership in wells and facilities and management’s estimate of costs to abandon and reclaim those wells and facilities, as well as an estimate of the future timing of the costs to be incurred.

By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements could be significant. The total undiscounted amount of the estimated cash flows required to settle its decommissioning liabilities are approximately $4,159,300 which will be settled over the operating lives of the underlying assets, estimated to occur primarily over the next ten years. A credit adjusted interest rate of 7% and an inflation rate of 2% were used to calculate the decommissioning liability. Settlement of the liability will be funded from general corporate funds at the time of retirement or removal.

Changes to the liabilities were as follows:

Decommissioning Liabilities		2016
Balance, beginning of year	**$**	**-**
Liabilities acquired (note 4)		**2,908,153**
Revisions to previously recorded liabilities		**(15,563)**
Accretion		**49,844**
Balance, end of period	**$**	**2,942,434**

8. 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

	Nine Months Ended September 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
Issuance on acquisition of business (note 4)	70,000,000	5,250,000	-	-
Balance, end of period	**149,600,768**	**131,202,046**	**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 40% on the date of grant, 30% on the first anniversary date of the grant, and 30% on the second anniversary date of the grant. The exercise price of each option equals the market price or greater 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 nine months ended September 30, 2016:

	Number of options	Weighted average price ($)
Balance, December 31, 2015	**3,310,000**	**0.72**
Expired	(160,000)	3.05
Forfeited	(2,050,000)	0.83
Issued	12,800,000	0.16
Balance, September 30, 2016	**13,900,000**	**0.16**

The following table summarizes stock options outstanding and exercisable under the plan at September 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
$0.16	12,800,000	4.75	$0.16	5,120,000	$0.16

The Corporation accounts for its share-based compensation using the fair value method for all stock options. On July 21, 2016, the Company issued 12,800,000 stock options to officers and directors with a fair value of $473,397 (2015 - $nil). The fair value of the stock options issued in the year has been estimated at the date of grant using the Black-Scholes option pricing model based on the following assumptions:

Dividend yield	**-**
Expected volatility	**80%**
Risk-free interest rate	**1.2%**
Expected life	**5 years**
Forfeiture	**nil**

d. Per common share amounts

The basic weighted average number of common shares outstanding for the nine and three months ended September 30, 2016 are as follows:

	Three months ended September 30, 2016	**Nine months ended September 30, 2016**
Issued common shares, beginning of period	**79,600,768**	**79,600,768**
Weighted average number of shares issued	54,021,739	18,138,686
Weighted average number of common shares, end of period – basic & diluted	**133,622,507**	**97,739,454**

The issued and basic weighted average number of common shares outstanding for the nine and three months ended September 30, 2015 was 79,600,768.

As the Corporation has recorded a loss for the nine and three months ended September 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 nine and three months ended September 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 only commenced 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 11.

9. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	Nine months ended September 30 ($)	
	2016	**2015**
Trade and other receivables	(525,588)	94,000
Prepaid expenses and deposits	49,588	15,046
Trade and other payables	516,982	(328,381)
Other	-	221,325
Change in non-cash working capital	**40,982**	**1,990**

10. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The Corporation’s financial instruments recognized in the statement of financial position consist of cash, trade and other receivables, trade and other payables and the debenture. The fair value of these financial instruments approximates their carrying amounts due to their short terms to maturity or the instrument is interest bearing.

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 trade and other receivables is limited to amounts largely pertaining to the sale of petroleum products 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, 2016, the Corporation's cash included $178,611 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 September 30, 2016, the debenture payable has a fixed interest rate and therefore 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 and debenture 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 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 and accrued liabilities 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. As all interest-bearing debt has a fixed interest rate at September 30, 2016, there is no direct exposure to fluctuations in interest rates.

11. 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 or transferred to a joint venture partner.

Office leases

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

	($)
2016	43,701
2017	105,746
2018	99,468
2019	24,867
Office lease commitments	273,782

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.

12. EXPENSES BY NATURE

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

	Three months ended September 30		Nine months ended September 30	
	2016 ($)	**2015 ($)**	**2016 ($)**	**2015 ($)**
Salaries and benefits	188,471	115,430	336,660	381,413
Severance costs	-	-	465,000	-
Office costs	73,418	24,246	135,132	129,002
Professional fees	461,465	18,100	605,726	141,653
Corporate and regulatory	6,047	5,033	68,679	33,106
	729,401	**162,809**	**1,611,197**	**685,164**

Included in the general and administrative expenses to September 30, 2016 is approximately $977,000 representing the severance costs of $465,000 and the transaction costs of $512,000 (note 4). These costs were incurred in transitioning to the Canadian oil and gas operations.

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

13. RELATED PARTIES

During the nine months ended September 30, 2016, the Corporation had the following related party transactions:

- severance costs of $465,000 were paid to former officers (note 12).
- 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. The parties are related as a director of the Corporation is also an officer of Kasten.

Directors	***Officers***	***Corporate Head Office***
Robert J. Iverach Chairman of the Board of Directors Calgary, Alberta	Robert J. Iverach Chief Executive Officer	900, 903 – 8 Avenue S.W. Calgary, Alberta T2R 0P7
Al Kroontje Businessman Calgary, Alberta	Kelly Kimbley President	***Trustee and Transfer Agent*** Computershare Trust Company
Michael Hibberd Businessman Calgary, Alberta	Robert L. Gillies Vice-President Finance, Secretary and Chief Financial Officer	***Solicitors*** Burstall Winger Zammit LLP
Paul Cheung Businessman Calgary, Alberta	Ulrich Wirth Vice-President Exploration	***Auditors*** PricewaterhouseCoopers LLP
Kelly Kimbley President Calgary, Alberta	Omar El-Hajjar Vice-President Operations	
	David Orr Vice-President Business Development	