



**PetroFrontier**

**Condensed Interim Consolidated**

**Financial Statements**

**March 31, 2017**

## **FIRST QUARTER 2017 CONSOLIDATED FINANCIAL STATEMENTS**

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### **UNAUDITED CONDENSED 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 March 31, 2017.

### **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 March 31, 2017 and the condensed consolidated statement of loss and comprehensive loss, changes in equity and cash flows for the three month period 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 condensed interim consolidated financial statements in accordance with International Financial Reporting Standards.

Signed: "Robert Iverach"

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Robert Iverach  
Chief Executive Officer

Signed: "Robert Gillies"

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Robert Gillies  
Chief Financial Officer

# PetroFrontier Corp.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

(Canadian Dollars)

<i>As at</i>	Note	March 31, 2017	December 31, 2016
<b>ASSETS</b>			
<b>Current</b>			
Cash		1,643,297	3,226,614
Trade and other receivables		1,273,360	851,970
Prepaid expenses and deposits		147,494	90,142
		3,064,151	4,168,726
<b>Property and equipment</b>	<b>5</b>	20,489,715	18,526,706
		<b>23,553,866</b>	<b>22,695,432</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Trade and other payables		2,836,990	1,126,187
Purchase price consideration payable		-	616,181
Decommissioning liabilities	<b>7</b>	294,675	294,675
		3,131,665	2,037,043
<b>Debenture</b>	<b>6</b>	2,693,971	2,663,207
<b>Decommissioning liabilities</b>	<b>7</b>	3,264,014	3,168,823
		9,089,650	7,869,073
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	<b>8</b>	131,202,046	131,202,046
Contributed surplus	<b>8</b>	11,770,266	11,717,009
Accumulated other comprehensive loss		(5,269,883)	(5,269,883)
Deficit		(123,238,213)	(122,822,813)
		14,464,216	14,826,359
		<b>23,553,866</b>	<b>22,695,432</b>

See accompanying notes to the condensed interim consolidated financial statements

Commitments and contingencies (Note 10)

## ***PetroFrontier Corp.***

### **CONDENSED CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS**

*(Unaudited)*

*(Canadian Dollars)*

		<b>Three months ended</b>	
	<b>Note</b>	<b>2017</b>	<b>March 31</b>
			<b>2016</b>
<b>PETROLEUM REVENUE</b>		1,354,047	-
<b>Less: royalties</b>		(110,124)	-
		<b>1,243,923</b>	<b>-</b>
<b>EXPENSES</b>			
Production operating costs		846,005	-
General and administrative	<b>11</b>	406,759	702,627
Foreign exchange gain		-	2,696
Depletion and depreciation	<b>5</b>	241,807	-
Accretion on decommissioning liabilities	<b>7</b>	60,054	-
Share-based compensation		53,257	-
		<b>1,607,882</b>	<b>705,323</b>
Finance income		(1,823)	(15,349)
Finance expense		53,264	-
		<b>51,441</b>	<b>(689,974)</b>
<b>NET and COMPREHENSIVE LOSS</b>		<b>(415,400)</b>	<b>(689,974)</b>
<b>Net loss per share</b>			
<b>Basic and diluted</b>	<b>8</b>	<b>(0.01)</b>	<b>(0.01)</b>

See accompanying notes to the condensed interim consolidated financial statements

## ***PetroFrontier Corp.***

### **CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

*(Unaudited)*

*(Canadian Dollars)*

	<b>Share Capital</b>	<b>Contributed Surplus</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Deficit</b>	<b>Total Equity</b>
<b>Balance at January 1, 2017</b>	<b>131,202,046</b>	<b>11,717,009</b>	<b>(5,269,883)</b>	<b>(122,822,813)</b>	<b>14,826,359</b>
Net loss	-	-	-	(415,400)	(415,400)
Share-based compensation	-	53,257	-	-	53,257
<b>Balance at March 31, 2017</b>	<b>131,202,046</b>	<b>11,770,266</b>	<b>(5,269,883)</b>	<b>(123,238,213)</b>	<b>14,464,216</b>
<b>Balance at January 1, 2016</b>	<b>125,952,046</b>	<b>11,048,889</b>	<b>(5,267,967)</b>	<b>(122,115,044)</b>	<b>9,617,924</b>
Net loss	-	-	-	(689,974)	(689,974)
<b>Balance at March 31, 2016</b>	<b>125,952,046</b>	<b>11,048,889</b>	<b>(5,267,967)</b>	<b>(122,805,018)</b>	<b>8,927,950</b>

See accompanying notes to the condensed interim consolidated financial statements

## ***PetroFrontier Corp.***

### **CONDENSED CONSOLIDATION STATEMENT OF CASH FLOWS**

*(Unaudited)*

*(Canadian dollars)*

		<b>Three months ended March 31,</b>	
	<b>Note</b>	<b>2017</b>	<b>2016</b>
<b>Cash provided by (used in)</b>			
<b>OPERATING</b>			
Net loss		(415,400)	(689,974)
Depletion and depreciation	<b>5</b>	241,807	-
Accretion	<b>7</b>	60,054	-
Share-based compensation		53,257	-
Convertible debt accretion		30,764	-
Change in non-cash working capital	<b>9</b>	(733,362)	66,779
<b>Cash flow used in operating activities</b>		<b>(762,880)</b>	<b>(623,195)</b>
<b>INVESTING</b>			
Expenditures on property and equipment		(204,256)	-
Purchase price consideration payment		(616,181)	-
<b>Cash flow used in investing activities</b>		<b>(820,437)</b>	<b>-</b>
Decrease in cash and cash equivalents		(1,583,317)	(623,195)
Cash and cash equivalents and term deposits, beginning of year		3,266,614	9,595,006
<b>Cash and cash equivalents, end of period</b>		<b>1,643,297</b>	<b>8,971,811</b>

*See accompanying notes to the condensed interim consolidated financial statements*

# ***PetroFrontier Corp.***

## **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE THREE MONTHS ENDED MARCH 31, 2017**

#### **1. REPORTING ENTITY**

PetroFrontier Corp. (the “Corporation”) was incorporated in Alberta, Canada on February 6, 2009 under the name Australia Energy Corp. The Corporation’s registered office is 900, 903 – 8<sup>th</sup> Ave. S.W. Calgary, Alberta, Canada T2P 0P7. The Corporation is engaged in exploring for and the production of petroleum and natural gas in western Canada.

The condensed consolidated financial statements of the Corporation as at and for the three months ended March 31, 2017 comprises the Corporation and its two inactive wholly-owned subsidiaries, PetroFrontier Australia Pty Ltd and Texalta Australia Pty Ltd. 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 corporation engaged in the acquisition, exploration, and development of both conventional and unconventional petroleum assets in Australia’s Southern Georgina Basin. On July 21, 2016, the Corporation acquired certain resource assets in the Cold Lake area of northeastern Alberta from Kasten Energy Inc. (“Kasten”).

#### **3. BASIS OF PRESENTATION**

##### **A) Statement of compliance**

These condensed interim consolidated 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 interim consolidated financial statements are based on IFRS issued and outstanding as of May 25, 2017, the date the condensed interim consolidated financial statements were approved by the Corporation’s Audit Committee for issuance. The policies applied are consistent throughout all periods presented in these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements should be read in conjunction with the Corporation’s 2016 annual consolidated financial statements.

##### **B) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except as disclosed in note 4 to the 2016 annual consolidated financial statements.

## NOTES (continued)

### C) Functional and presentation currency

These condensed consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

### 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, revenues 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 years 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 condensed interim consolidated financial statements are outlined in the Company's financial statements for the year ended December 31, 2016.

## 4. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim financial statements should be read in conjunction with the annual financial statements and accompanying notes for the year ended December 31, 2016. These condensed interim financial statements have been prepared following the same accounting policies as described in note 4 of the Company's annual consolidated financial statements for the year ended December 31, 2016.

## 5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

		<b>Oil &amp; Gas Properties</b>	<b>Office Equipment</b>		<b>Total</b>
<b>Cost</b>					
Balance, December 31, 2016	\$	18,740,903	9,610	\$	18,750,513
Retirement		-	(3,233)		(3,233)
Additions		2,204,816	-		2,204,816
Balance, March 31, 2017	\$	20,945,719	6,377	\$	20,952,096
<b>Accumulated Depreciation</b>					
Balance, December 31, 2016	\$	(218,448)	(5,359)		(223,807)
Retirement		-	3,233		3,233
Depletion and depreciation		(241,276)	(531)		(241,807)
Balance, March 31, 2017		(459,724)	(2,657)		(462,381)
<b>Net book value, March 31, 2017</b>	<b>\$</b>	<b>20,485,995</b>	<b>3,720</b>	<b>\$</b>	<b>20,489,715</b>

At March 31, 2017, future development costs of \$37,787,000 associated with proved and probable reserves are included in costs subject to depletion.

## 6. DEBENTURE PAYABLE



NOTES (continued)

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<b>Balance, December 31, 2016</b>	\$	2,663,207
Accretion in the period		30,764
<b>Balance, March 31, 2017</b>	\$	<b>2,693,971</b>

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On July 21, 2016, the Corporation issued a 3% secured convertible debenture in the principal amount of \$3,000,000 to Kasten. The debenture matures no later than June 30, 2019, is secured against the property of the Corporation 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. At the date of issuance, 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%.

## 7. DECOMMISSIONING LIABILITY

The Corporation’s total decommissioning liability is estimated based on the Corporation’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 \$4,927,800 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:

NOTES (continued)

<b>Decommissioning Liabilities</b>	<b>2017 (\$)</b>	<b>2016 (\$)</b>
<b>Balance, beginning of year</b>	3,463,498	-
Liabilities incurred or acquired	41,128	3,489,784
Revisions to previously recorded liabilities	(5,991)	(81,377)
Settlement of decommissioning liabilities	-	(65,690)
Accretion	60,054	120,781
	3,558,689	3,463,498
Less: current portion	(294,675)	(294,675)
<b>Balance, end of period</b>	<b>3,264,014</b>	<b>3,168,823</b>

## 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 of PetroFrontier

	<b>Three months Ended March 31, 2017</b>		<b>Year Ended December 31, 2016</b>	
	<b>Number of shares</b>	<b>Amount (\$)</b>	<b>Number of shares</b>	<b>Amount (\$)</b>
<b>Common Shares</b>				
Balance, beginning of year	149,600,768	131,202,046	79,600,768	125,952,046
Issuance on acquisition of business	-	-	70,000,000	5,250,000
<b>Balance, end of period</b>	<b>149,600,768</b>	<b>131,202,046</b>	<b>149,600,768</b>	<b>131,202,046</b>

### 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:

NOTES (continued)

	Three months ended March 31, 2017		Year ended December 31, 2016	
	#	Weighted average exercise price	#	Weighted average exercise price
<b>Outstanding, beginning of year</b>	<b>13,900,000</b>	<b>\$ 0.16</b>	3,310,000	\$ 0.72
Expired	-	-	(2,210,000)	3.05
Issued	-	-	12,800,000	0.16
<b>Outstanding, end of period</b>	<b>13,900,000</b>	<b>\$ 0.16</b>	13,900,000	\$ 0.16
<b>Exercisable, end of period</b>	<b>6,220,000</b>	<b>\$ 0.16</b>	6,220,000	\$ 0.16

The following table summarizes stock options outstanding and exercisable under the plan at March 31, 2017.

Exercise price( \$)	Number outstanding at period end	Options outstanding		Options exercisable	
		Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at period end	Weighted average exercise price
\$0.18	1,100,000	1.83	\$0.18	1,100,000	\$0.18
\$0.16	12,800,000	4.33	\$0.16	5,120,000	\$0.16

**D) Contributed surplus**

The following table summarizes the changes in contributed surplus:

	March 31, 2017 (\$)	December 31, 2016 (\$)
<b>Balance, beginning of year</b>	11,717,009	11,048,889
Equity component of debenture	-	390,000
Share-based compensation expense	53,257	278,120
<b>Balance, end of period</b>	<b>11,770,266</b>	<b>11,717,009</b>

**E) Per common share amounts**

## NOTES (continued)

	<b>Three months ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Issued common shares, beginning of year</b>	<b>149,600,768</b>	79,600,768
Weighted average number of shares issued	-	-
<b>Weighted average number of common shares, end of year – basic &amp; diluted</b>	<b>149,600,768</b>	79,600,768

As the Corporation has recorded a loss for the three months ended March 31, 2017 and 2016, 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 three months ended March 31, 2017 and 2016 no options were in-the-money.

### 9. SUPPLEMENTAL CASH FLOW INFORMATION

The changes in non-cash working capital for the three months ending March 31 is as follows:

	<b>2017</b>	<b>2016</b>
	<b>(\$)</b>	<b>(\$)</b>
Accounts receivable	(421,390)	25,623
Prepaid expenses and deposits	(57,352)	8,441
Accounts payables and accrued liabilities	(254,620)	32,715
<b>Change in non-cash working capital</b>	<b>(733,362)</b>	<b>66,779</b>

### 10. COMMITMENTS AND CONTINGENCIES

#### Office lease

The Corporation has an office lease that requires monthly payments of \$8,288 and expires March 29, 2019.

#### Drilling commitments

Pursuant to joint venture agreements, the Corporation has commitments to drill two horizontal wells and re-activate eight wells by November 30, 2017. To date in 2017, the Corporation has drilled, completed and equipped the two horizontal wells and has commenced a number of reactivations. The Corporation may be required to secure debt and/or equity financing in order to meet its 2017 capital commitments.

#### Litigation

During the year ended December 31, 2014, Macquarie Capital Markets Canada Ltd. filed a Statement of Defense 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.

### 11. EXPENSES BY NATURE

## NOTES (continued)

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

	<b>Three months ended</b>	
	<b>March 31</b>	
	<b>2017</b>	<b>2016</b>
	<b>(\$)</b>	<b>(\$)</b>
Salaries and benefits	246,710	133,087
Severance costs	-	465,000
Office costs	98,133	54,064
Professional fees	61,916	39,515
Corporate and regulatory	-	10,961
	<b>406,759</b>	<b>702,627</b>

## 12. RELATED PARTIES

The Corporation is related to Kasten as a director of the Corporation is also an officer of Kasten. Pursuant to the 2016 Agreement of Purchase & Sale regarding the Kasten Assets, Kasten agreed to act as a bare trustee during the transitional period which primarily included receiving the monthly cash receipts from petroleum and natural gas sales and forwarding the monies to the Corporation. During 2017, the following additional transactions occurred with Kasten:

- The \$3,000,000 debenture issued to Kasten as part of the 2016 purchase consideration remains outstanding.
- Interest expense of \$53,264 was recorded in the Statement of Loss and Comprehensive Loss related to the debenture. At March 31, 2017, interest of \$22,500 was included in Trade and other payables on the Statement of Financial Position

In addition, the Corporation acquired \$97,642 of drilling inventory from a supplier in which a director holds an interest.

**NOTES** *(continued)*

***Directors***

Robert J. Iverach  
Chairman of the Board of  
Directors and Chief Executive  
Officer  
Calgary, Alberta

Kelly Kimbley  
President, PetroFrontier Corp.  
Calgary, Alberta

Al Kroontje  
Businessman  
Calgary, Alberta

Michael Hibberd  
Businessman  
Calgary, Alberta

Paul Cheung  
Businessman  
Calgary, Alberta

***Officers***

Robert J. Iverach  
Chief Executive Officer

Kelly Kimbley  
President

Robert Gillies  
Vice President Finance and  
Chief Financial Officer

***Corporate Head Office***

900, 903 – 8th Avenue S.W.  
Calgary, Alberta T2P 0P7

***Trustee and Transfer Agent***

Computershare Trust Corporation

***Solicitors***

Burstall Winger Zammit LLP

***Auditors***

PricewaterhouseCoopers LLP