PetroFrontier

Condensed Interim Consolidated Financial Statements

June 30, 2017

SECOND QUARTER 2017 CONSOLIDATED FINANCIAL STATEMENTS

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 June 30, 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 June 30, 2017 and the condensed consolidated statement of loss and comprehensive loss, changes in equity and cash flows for the three and six month period then ended are the responsibility of the Company's management.

These condensed interim 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"	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	Note	June 30, 2017	December 31, 2016
ASSETS			
Current			
Cash		494,420	3,226,614
Trade and other receivables		944,844	851,970
Prepaid expenses and deposits		178,516	90,142
		1,617,780	4,168,726
Property and equipment	**5**	20,399,910	18,526,706
		22,017,690	**22,695,432**
LIABILITIES			
Current			
Trade and other payables		1,776,225	1,126,187
Purchase price consideration payable		-	616,181
Decommissioning liabilities	**7**	-	294,675
		1,776,225	2,037,043
Debenture	**6**	2,725,350	2,663,207
Decommissioning liabilities	**7**	3,427,408	3,168,823
		7,928,983	7,869,073
SHAREHOLDERS' EQUITY			
Share capital	**8**	131,202,046	131,202,046
Contributed surplus	**8**	11,823,523	11,717,009
Accumulated other comprehensive loss		(5,269,883)	(5,269,883)
Deficit		(123,666,979)	(122,822,813)
		14,088,707	14,826,359
		22,017,690	**22,695,432**

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)

	Three months ended June 30		Six months ended June 30	
	2017	**2016**	**2017**	**2016**
PETROLEUM REVENUE	1,351,015	-	2,705,062	-
Less: royalties	(97,413)	-	(207,537)	-
	1,253,602	**-**	**2,497,525**	**-**
EXPENSES				
Production operating costs	856,888	-	1,702,893	-
General and administrative (note 11)	433,484	179,169	840,243	881,796
Foreign exchange	-	(2,696)	-	-
Depletion and depreciation (note 5)	228,684	-	470,491	-
Accretion on decommissioning liabilities (note 7)	57,885	-	117,939	-
Share-based compensation (note 8)	53,257	-	106,514	-
	1,630,198	**176,473**	**3,238,080**	**881,796**
Finance income	(1,709)	(14,840)	(3,532)	(30,189)
Finance expense	53,879	-	107,143	-
	52,170	**(14,840)**	**103,611**	**(30,189)**
NET LOSS	**(428,766)**	**(161,633)**	**(844,166)**	**(851,607)**
OTHER COMPREHENSIVE EARNINGS				
Items that may be reclassified subsequently to net income (loss):				
Foreign exchange loss on foreign operations	-	(7,912)	-	(7,912)
COMPREHENSIVE LOSS	**(428,766)**	**(169,545)**	**(844,166)**	**(859,519)**
Net loss per share				
Basic and diluted (note 8)	**(0.00)**	**(0.00)**	**(0.01)**	**(0.01)**

See accompanying notes to the condensed interim consolidated 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, 2017	**131,202,046**	**11,717,009**	**(5,269,883)**	**(122,822,813)**	**14,826,359**
Net loss	-	-	-	(844,166)	(844,166)
Share-based compensation	-	106,514	-	-	106,514
Balance at June 30, 2017	**131,202,046**	**11,823,523**	**(5,269,883)**	**(123,666,979)**	**14,088,707**
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**

See accompanying notes to the condensed interim consolidated financial statements

PetroFrontier Corp.

CONDENSED CONSOLIDATION STATEMENT OF CASH FLOWS

(Unaudited)

(Canadian dollars)

		Six months ended June 30,	
	Note	**2017**	**2016**
Cash provided by (used in)			
OPERATING			
Net loss		(844,166)	(851,607)
Depletion and depreciation	**5**	470,491	-
Accretion on decommissioning liabilities	**7**	117,939	
Convertible debt accretion	**6**	62,143	-
Share-based compensation		106,514	-
Finance income		-	(30,189)
Change in non-cash working capital	**9**	171,673	74,050
Cash flow provided by (used in) operating activities		**84,594**	**(807,746)**
INVESTING			
Expenditures on property and equipment		(2,200,607)	-
Finance income		-	30,189
Issuance of note receivable		-	525,000
Purchase price consideration payment		(616,181)	-
Cash flow used in investing activities		**(2,816,788)**	**-**
Decrease in cash and cash equivalents		(2,732,194)	(494,811)
Cash and cash equivalents and term deposits, beginning of year		3,266,614	9,595,006
Cash and cash equivalents, end of period		**494,420**	**8,284,537**

See accompanying notes to the condensed interim consolidated financial statements

PetroFrontier Corp.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 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 head office is located at Suite 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 in western Canada.

The condensed consolidated financial statements of the Corporation as at and for the three and six months ended June 30, 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 August 24, 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:

		Oil & Gas Properties	Office Equipment		Total
Cost					
Balance, December 31, 2016	$	18,740,903	9,610	$	18,750,513
Retirement		-	(3,233)		(3,233)
Additions		2,343,695	-		2,343,695
Balance, June 30, 2017	$	21,084,598	6,377	$	21,090,975
Accumulated Depreciation					
Balance, December 31, 2016	$	(218,448)	(5,359)		(223,807)
Retirement		-	3,233		3,233
Depletion and depreciation		(469,960)	(531)		(470,491)
Balance, June 30, 2017		(688,408)	(2,657)		(691,065)
Net book value, June 30, 2017	**$**	**20,396,190**	**3,720**	**$**	**20,399,910**

At June 30, 2017, future development costs of $37,787,000 associated with proved and probable reserves are included in costs subject to depletion.

6. DEBENTURE PAYABLE

Balance, December 31,2016	$	2,663,207
Accretion in the period		62,143
Balance, June 30, 2017	$	**2,725,350**

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 $4,232,500 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	**2017 ($)**	**2016 ($)**
Balance, beginning of year	3,463,498	-
Liabilities incurred or acquired	41,128	3,489,784
Revisions to previously recorded liabilities	(195,157)	(81,377)
Settlement of decommissioning liabilities	-	(65,690)
Accretion	117,939	120,781
	3,427,408	3,463,498
Less: current portion	-	(294,675)
Balance, end of period	**3,427,408**	**3,168,823**

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

	Six Months Ended June 30, 2017		**Year Ended December 31, 2016**	
	Number of shares	**Amount ($)**	**Number of shares**	**Amount ($)**
Common Shares				
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
Balance, end of period	**149,600,768**	**131,202,046**	**149,600,768**	**131,202,046**

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.

NOTES *(continued)*

The following table summarizes the changes to the Corporation's option plan:

	Six months ended June 30, 2017			Year ended December 31, 2016		
	#	Weighted average exercise price		#	Weighted average exercise price	
Outstanding, beginning of year	**13,900,000**	**$**	**0.16**	3,310,000	$	0.72
Expired	**-**		**-**	(2,210,000)		3.05
Issued	**-**		**-**	12,800,000		0.16
Outstanding, end of period	**13,900,000**	**$**	**0.16**	13,900,000	$	0.16
Exercisable, end of period	**6,220,000**	**$**	**0.16**	6,220,000	$	0.16

The following table summarizes stock options outstanding and exercisable under the plan at June 30, 2017.

		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	1.33	$0.18	1,100,000	$0.18
$0.16	12,800,000	4.08	$0.16	5,120,000	$0.16

D) Contributed surplus

The following table summarizes the changes in contributed surplus:

	June 30, 2017 ($)	**December 31, 2016 ($)**
Balance, beginning of year	11,717,009	11,048,889
Equity component of debenture	-	390,000
Share-based compensation expense	106,514	278,120
Balance, end of period	**11,823,523**	**11,717,009**

E) Per common share amounts

	Six months ended June 30, 2017	2016
Issued common shares, beginning of year	**149,600,768**	79,600,768
Weighted average number of shares issued	**-**	-
Weighted average number of common shares, end of year – basic & diluted	**149,600,768**	79,600,768

As the Corporation has recorded a loss for the six and three months ended June 30, 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 six months ended June 30, 2017 and 2016 no options were in-the-money.

9. SUPPLEMENTAL CASH FLOW INFORMATION

The changes in non-cash working capital for the six months ending June 30 is as follows:

	2017 ($)	2016 ($)
Accounts receivable	(92,874)	35,642
Prepaid expenses and deposits	(88,374)	16,897
Accounts payables and accrued liabilities	352,921	21,511
Change in non-cash working capital	**171,673**	**74,050**

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 with the balance of the commitments to be met by November 30,2017. 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 is proceeding with its lawsuit against Macquarie and its defense of the Counterclaim.

NOTES *(continued)*

11. EXPENSES BY NATURE

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

	Three months ended June 30		Six months ended June 30	
	2017 ($)	**2016 ($)**	**2017 ($)**	**2016 ($)**
Salaries and benefits	244,642	16,357	491,352	149,444
Severance costs	-	-	-	465,000
Office costs	76,877	45,445	175,011	99,509
Professional fees	95,470	75,423	157,386	114,938
Corporate and regulatory	16,494	41,944	16,494	52,905
	433,484	**179,169**	**840,243**	**881,796**

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 $107,143 was recorded in the Statement of Loss and Comprehensive Loss related to the debenture. At June 30, 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 at fair value 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