PetroFrontier

Annual Consolidated Financial Statements for the years ended December 31, 2018 and 2017

Independent auditor's report

To the Shareholders of PetroFrontier Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of PetroFrontier Corp. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to Note 2 in the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

PricewaterhouseCoopers LLP
111-5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Alisa Sorochan.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
April 24, 2019

PetroFrontier Corp.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Canadian Dollars)

As at		December 31, 2018		December 31, 2017
ASSETS				
Current				
Cash	$	76,766	$	221,461
Trade and other receivables		46,422		748,163
Prepaid expenses and deposits		58,272		140,816
		181,460		1,110,440
Property and equipment (note 5)		19,759,745		20,582,194
Exploration and evaluation assets (note 13)		250,000		-
	$	**20,191,205**	**$**	**21,692,634**
LIABILITIES				
Current				
Trade and other payables	$	2,233,272	$	1,924,506
Current portion of decommissioning liabilities (note 8)		90,000		-
Debenture (note 6)		3,000,000		3,000,000
Convertible note payable (note 7)		500,000		-
		5,823,272		4,924,506
Decommissioning liabilities (note 8)		3,398,018		3,549,422
		9,221,290		8,473,928
SHAREHOLDERS' EQUITY				
Share capital (Note 9)		131,202,046		131,202,046
Contributed surplus (Note 9)		11,912,279		11,870,862
Accumulated other comprehensive loss		(5,269,883)		(5,269,883)
Deficit		(126,874,527)		(124,584,319)
		10,969,915		13,218,706
	$	**20,191,205**	**$**	**21,692,634**

See notes to the consolidated financial statements

Going concern (note 2)
Commitments and contingencies (Note 13)
Subsequent event (Note 18)

PetroFrontier Corp.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Canadian Dollars)

		Years ended December 31		
		2018		**2017**
PETROLEUM SALES (note 14)	$	3,557,724	$	5,368,064
Less: royalties		(288,950)		(431,649)
Revenue		**3,268,774**		**4,936,415**
EXPENSES				
Production operating costs		2,948,519		3,254,505
General and administrative (note 15)		1,461,083		1,716,164
Depletion and depreciation (note 5)		739,505		912,991
Accretion (note 8)		256,477		239,953
Share-based compensation (note 9)		41,417		153,853
		5,447,001		**6,277,466**
Finance income		-		(6,338)
Finance expense (note 15)		111,981		426,793
		111,981		**420,455**
NET and COMPREHENSIVE LOSS	**$**	**(2,290,208)**	**$**	**(1,761,506)**
Net loss per share				
Basic and diluted (note 9)	**$**	**(0.02)**	**$**	**(0.01)**

See notes to the consolidated financial statements

PetroFrontier Corp.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

(Canadian Dollars)

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance at January 1, 2018	**131,202,046**	**11,870,862**	**(5,269,883)**	**(124,584,319)**	**13,218,706**
Net loss	-	-	-	(2,290,208)	(2,290208)
Share-based compensation	-	41,417	-	-	41,417
Balance at Dec. 31, 2018	**131,202,046**	**11,912,279**	**(5,269,883)**	**(126,874,527)**	**10,969,915**
Balance at January 1, 2017	**131,202,046**	**11,717,009**	**(5,269,883)**	**(122,822,813)**	**14,826,359**
Net loss	-	-	-	(1,761,506)	(1,761,506)
Share-based compensation	-	153,853	-	-	153,853
Balance at Dec. 31, 2017	**131,202,046**	**11,870,862**	**(5,269,883)**	**(124,584,319)**	**13,218,706**

See notes to the consolidated financial statements

PetroFrontier Corp.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Canadian dollars)

	For the year ended December 31	
	2018	**2017**
Cash provided by (used in)		
OPERATING		
Net loss	$ (2,290,208)	$ (1,761,506)
Items not affecting cash:		
Depletion and depreciation	739,505	912,991
Accretion	256,477	239,953
Share-based compensation (Note 9)	41,417	153,853
Convertible debt accretion (Note 7)	-	336,793
Change in non-cash working capital (Note 10)	815,239	723,102
Cash flow provided by (used in) operating activities	**(437,570)**	**605,186**
INVESTING		
Expenditures on property and equipment	(50,125)	(2,994,158)
Expenditures on exploration and evaluation assets	(157,000)	-
Payment of purchase price consideration	-	(616,181)
Cash flow used in investing activities	**(207,125)**	**(3,610,339)**
FINANCING		
Proceeds of convertible note payable (Note 7)	500,000	-
Decrease in cash and cash equivalents	(144,695)	(3,005,153)
Cash and cash equivalents and term deposits, beginning of year	221,461	3,226,614
Cash and cash equivalents, end of year	**$ 76,766**	**$ 221,461**
Interest paid in the year	**$ 16,767**	**$ 22,500**

See notes to the consolidated financial statements

1. REPORTING ENTITY

PetroFrontier Corp. (the "Corporation") was incorporated in Alberta, Canada on February 6, 2009 under the name Australia Energy Corp. 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 in western Canada.

The consolidated financial statements of the Corporation as at and for year ended December 31, 2018 comprises the Corporation and its two wholly-owned, inactive Australian subsidiaries, PetroFrontier (Australia) Pty Ltd ("PetroFrontier Australia") and Texalta (Australia) Pty Ltd ("Texalta Australia").

2. GOING CONCERN

These financial statements have been prepared using International Financial Reporting Standards ("IFRS") as they apply to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. The Corporation continues to incur losses from operations as evidenced by the 2018 net loss of $2,290,208, did not pay convertible note payable interest of $6,575 as described in note 7 and has a working capital deficiency of $5,641,812 (December 31, 2017 - $4,323,318). Refer to Note 12 for the assessment of working capital deficiency. These circumstances cause material uncertainties that may cast significant doubt upon the Corporation's ability to continue as a going concern, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In recognition of these conditions, the Corporation negotiated two credit facilities. The initial credit facility was negotiated in 2018 to a maximum $1,500,000 which is further described in note 7, Convertible Note Payable. The second credit facility was negotiated in April 2019 to a maximum of $2,000,000 and is further described in Subsequent Event. The Corporation has also taken steps to reduce operational costs and will seek the continued support of the debenture holder.

These undertakings, while significant, may not be sufficient in and of themselves to enable the Corporation to fund all aspects of future operations, and accordingly, management will need to pursue other financing alternatives to fund the Corporation so that it may continue as a going concern. The necessary financing may require the issuance of equity and/or debt instruments. There is no assurance that such initiatives may be successful.

There can be no assurance that the Corporation will become profitable or be able repay the trade and other payables, and the debenture. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported amounts of revenues and expenses and the classification of the statement of financial position items if the going concern assumption is inappropriate and these adjustments could be material.

3. BASIS OF PRESENTATION

A) Statement of compliance

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

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of December 31, 2018. On April 24, 2019, the Board of Directors approved the consolidated financial statements.

B) Basis of measurement

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

C) Functional and presentation currency

These 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, income and expenses. Actual results may differ from these estimates.

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

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

Reserve estimates

Petroleum and natural gas assets are depleted on a unit-of-production basis at a rate calculated by reference to proved and probable reserves determined in accordance with National Instrument 51-101, Standards of disclosure for Oil and Gas Activities ("NI 51-101") and incorporating the estimated future cost of developing and extracting those reserves. Proved and probable reserves are estimated using independent reservoir engineering reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Reserves estimates, although not reported as part of the Corporation's financial statements, can have a significant effect on net income (loss), assets and liabilities as a result of their impact on depreciation and depletion, decommissioning liabilities, deferred taxes and asset impairments. Independent reservoir engineers perform evaluations of the Corporation's oil and gas reserves on an annual basis. The estimation of reserves is an inherently complex process requiring significant judgment. Estimates of economically recoverable oil and natural gas reserves are based upon a number of variables and assumptions such as geoscientific interpretation, production forecast, commodity prices and costs and related future cash flows, all of which may vary considerably from actual results. These estimates are expected to be revised upward or downward over time, as additional information such as reservoir performance becomes available or as economic conditions change.

Impairment indicators and discount rate

For purposes of impairment testing, petroleum and natural gas assets are grouped into cash generating units ("CGUs"), based on separately identifiable and largely independent cash flows. The determination of the Corporation's CGU is subject to judgment. Factors considered in the classification include the integration between assets, shared infrastructures, the existence of common sales points, geography, geologic structure, and the manner in which management monitors and makes decisions about its operations.

The recoverable amounts of CGUs and individual assets are based on the higher of their value-in-use and fair values less costs to sell. These calculations require the use of estimates and assumptions. Unless indicated otherwise, the recoverable amount used in assessing impairment charges is fair value less costs to sell. The Corporation generally estimates fair value less costs to sell using a discounted cash flow model which has a significant number of assumptions. The model uses expected cash flows from proved plus probable reserves. These estimates are subject to measurement uncertainty as discussed above and subject to variability to changes in forecasted commodity prices. The discount rate applied to the cash flows is also subject to management's judgment and will affect the recoverable amount calculated.

It is reasonably possible that the commodity price assumptions may change which may then impact the estimated life of the field and may then require a material adjustment to the carrying value of its tangible and intangible assets. The Corporation monitors internal and external indicators of impairment relating to its tangible assets. These indicators include changes in (a) commodity prices, (b) reserve volumes and (c) discount rates.

Decommissioning costs

At the end of the operating life of the Corporation's facilities and properties and upon retirement of its oil and natural gas assets, decommissioning costs will be incurred by the Corporation. Estimates of these costs are subject to uncertainty associated with the method, timing and extent of future decommissioning activities. The liability, the related assets and the expenses are impacted by estimates with respect to the costs and timing of decommissioning.

Convertible debt

The Corporation issues convertible debt that can be converted into common shares of the Corporation. 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. As such, the Corporation must consider what the fair value of a similar liability that does not have an equity conversion option.

Measurement of share-based payments

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

Income taxes

Tax regulations and legislation and the interpretations thereof are subject to change. The Corporation recognized the net future tax benefit of deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Corporation to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Corporation to realize the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Corporation operates could limit the ability of the Corporation to obtain tax deductions in future periods.

4. SIGNIFICANT ACCOUNTING POLICIES

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

A) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

B) 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 income (loss).

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

C) Foreign currency

(i) Foreign currency transactions

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

(ii) Foreign operations

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

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

D) Cash and cash equivalents

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

E) Jointly controlled operations and jointly controlled assets

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

F) Property and equipment

Property and equipment comprise of oil and gas assets and office equipment. 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 on the basis of 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 Corporation 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.

Office equipment is recorded at cost and are depreciated on the straight-line basis over three years.

G) Exploration and evaluation

Exploration and evaluation ("E&E") costs are capitalized for projects after the Corporation 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).

H) Convertible debentures and note payable

Compound financial instruments issued by the Corporation comprise convertible debentures and note payable that can be converted into common shares of the Corporation. 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.

I) Decommissioning liabilities

The Corporation 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.

J) Income taxes

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

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

K) Revenue recognition

Policy Applicable Before January 1, 2018

Revenues associated with the sales are recognized when the significant risks and rewards of ownership have been transferred to the customer, the sales price and costs can be measured reliably and it is probable that the economic benefits will flow to the Corporation. This is generally met when title passes from the Corporation to its customer. Revenues from the production of crude oil represent the Corporation's share, net of royalty payments to governments and other mineral interest owners.

Policy Applicable From January 1, 2018

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Corporation recognizes revenue when it transfers control of the product or service to a customer, which is generally when title passes from the Corporation to its customer.

The Corporation satisfies its performance obligations in contracts with customers upon the delivery of crude oil which is generally at a point in time. The Corporation sells its production of crude oil pursuant to variable price contracts. The transaction price for variable price contracts is based on the commodity price, adjusted for quality, location and other factors. The amount of revenue recognized is based on the agreed transaction price with any variability in transaction price recognized in the same period. Fees associated with marketing, transportation services and trans-loading services are based on fixed price contracts. Cenovus's revenue transactions do not contain significant financing components and payments are typically due within 30 days of revenue recognition. The Corporation does not adjust transaction prices for the effects of a significant financing component when the period between the transfer of the promised goods or services to the customer and payment by the customer is less than one year. The Corporation does not disclose or quantify information about remaining performance obligations that have an original expected duration of one year or less and it does not have any long-term contracts with unfulfilled performance obligations

L) Per share amounts

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

M) Share-based compensation plan

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

N) Financial instruments

Financial instruments are comprised of cash, trade and other receivables, deposits, trade and other payables, convertible note payable and a debenture. Financial assets and liabilities are recognized when the Corporation 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 Corporation has transferred all risks and rewards of ownership**.**

(i) Financial assets

Classification and Measurement of Financial Assets

Policy Applicable from January 1, 2018

The initial classification of a financial asset depends upon the Corporation's business model for managing its financial assets and the contractual terms of the cash flows. There are three measurement categories into which the Corporation classified its financial assets:

•Amortized Cost: Includes assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest;
•FVOCI: Includes assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, where its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest; or
•Fair Value through Profit and Loss ("FVTPL"): Includes assets that do not meet the criteria for amortized cost or FVOCI and are measured at fair value through profit or loss.

This includes all derivative financial assets. On initial recognition, the Corporation may irrevocably designate a financial asset that meets the amortized cost or FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. On initial recognition of an equity investment that is not held-for-trading, the Corporation may irrevocably elect to present subsequent changes in the investment's fair value in OCI. There is no subsequent reclassification of fair value changes to earnings following the derecognition of the investment. However, dividends that reflect a return on investment continue to be recognized in net earnings. This election is made on an investment-by-investment basis. At initial recognition, the Corporation measures a financial asset at its fair value and, in the case of a financial asset not at FVTPL, including transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are recorded as an expense in net earnings. Financial assets are reclassified subsequent to their initial recognition only if the business model for managing those financial assets changes. The affected financial assets will be reclassified on the first day of the first reporting period following the change in the business model. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the Corporation has transferred substantially all the risks and rewards of ownership

Policy Applicable Before January 1, 2018

Prior to the adoption of IFRS 9, "Financial Instruments" ("IFRS 9") on January 1, 2018, the Corporation classified and measured financial assets under IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). There were three measurement categories into which the Corporation classified its financial assets:

•FVTPL: Assets were either 'held-for-trading' or had been 'designated at fair value through profit or loss. The assets were measured at fair value with changes in fair value recognized in net earnings;
•Loans and Receivables: Included assets with fixed or determinable payments that are not quoted in an active market. After initial measurements, these assets were measured at amortized cost at the settlement date using the effective interest rate method of amortization; and Available for Sale Financial Assets: Included investments in the equity of private companies that the Corporation did not have control or had significant influence over.

These assets were measured at fair value, with changes in fair value recognized in OCI. When an active market was non-existent, fair value was determined using valuation techniques. When the fair value could not be reliably measured, such assets were carried at cost.

Impairment of Financial Assets

Policy Applicable from January 1, 2018

The Corporation recognizes loss allowances for expected credit losses (“ECLs”) on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Corporation measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Corporation expects to receive). ECLs are discounted at the effective interest rate of the related financial asset. The Corporation does not have any financial assets that contain a financing component.

Policy Applicable Before January 1, 2018

At each reporting date, the Corporation assesses whether there are any indicators that its financial assets are impaired. An impairment loss is only recognized if there is objective evidence of impairment, the loss event has an impact on future cash flows and the loss can be reliably estimated. Evidence of impairment may include default or delinquency by a debtor or indicators that the debtor may enter bankruptcy. For equity securities, a significant or prolonged decline in the fair value of the security below cost is evidence that the assets are impaired. An impairment loss on a financial asset carried at amortized cost is calculated as the difference between the amortized cost and the present value of the future cash flows discounted at the asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. Impairment losses on financial assets carried at amortized cost are reversed through net earnings in subsequent periods if the amount of the loss decreases.

(ii) Financial liabilities

Financial liabilities include trade and other payables, convertible note payable and the debenture payable. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Financial liabilities are measured at amortized cost or fair value through profit or loss. Financial liabilities at amortized cost include trade and other payables, convertible note and debenture payable. Trade and other payables are initially recognized at fair value. The liability component of the convertible note and debentures is recognized initially at fair value of similar liability without the conversion option, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. 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.

Financial liabilities are derecognized when the liability is extinguished. A substantial modification of the terms of an existing financial liability is recorded as an extinguishment of the original financial liability. The difference between the carrying amount of a financial liability extinguished and the consideration paid is recognized in earnings or loss. Where a financial liability is modified in a way that does not constitute an extinguishment, the modified cash flows are discounted at the liability's original effective interest rate.

O) Changes in accounting policies

The Corporation has adopted the following accounting policy effective January 1, 2018:

IFRS 9 – Financial Instruments

Effective January 1, 2018, the Corporation adopted IFRS 9, which replaced IAS39. The Corporation applied the modified retrospectively approach and, in accordance with the transitional provisions, comparative figures have not been restated. The adoption of IFRS 9 did not have a material impact on the Corporation's Consolidated Financial Statements. The nature and effects of the key changes to the Corporation's accounting policies resulting from the adoption of IFRS9 are summarized below.

Classification of Financial Assets and Financial Liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, FVOCI, and FVTPL. The previous IAS39 categories of held to maturity, loans and receivables and available for sale are eliminated. IFRS 9 bases the classification of financial assets on the contractual cash flow characteristics and the Corporation's business model for managing the financial asset. Additionally, embedded derivatives are not separated if the host contract is a financial asset within the scope of IFRS 9. Instead, the entire hybrid contract is assessed for classification and measurement. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The differences between the two standards did not impact the Corporation at the time of transition.

Impairment of Financial Assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an ECL model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments measured at FVOCI. Under IFRS 9, credit losses will be recognized earlier than under IAS 39.

Transition

On January 1, 2018, the Corporation:

•Identified the business model used to manage its financial assets and classified its financial instruments into the appropriate IFRS 9 category; and

•Applied the ECL model to financial assets classified as measured at amortized cost.

The classification and measurement of financial instruments under IFRS 9 did not have a material impact on the Corporation's opening retained earnings as at January 1, 2018. In addition, the application of the ECL model to financial assets classified as measured at amortized cost did not result in a material adjustment on transition. The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 as at January 1, 2018 for each class of the Corporation's financial assets and financial liabilities. The Corporation has no contract assets or debt investments measured at FVOCI.

NOTES *(continued)*

Financial Instrument	IAS 39		IFRS 9	
Asset	Classification	Measurement	Classification	Measurement
Cash	Amortized Cost	Amortized cost	Amortized cost	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost	Amortized cost	Amortized cost
Deposits	Loans and receivables	Amortized cost	Amortized cost	Amortized cost
Liabilities				
Trade and other payables	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost
Debentures	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost

IFRS 15 – Revenue from Contracts with Customers

This standard provides a single model that applies to contracts with customers as well as two revenue recognition approaches: at a point in time or over time. The model features a contract-based, five-step analysis of transactions to determine whether, when and the amount of revenue is recognized. The new standard applies to contracts with customers. The new revenue standard permits a full retrospective method of adoption with restatement of all prior periods presented, or a modified retrospective method with the cumulative effect of applying the new standard recognized as an adjustment to opening retained earnings in the period of adoption. The Corporation adopted the modified retrospective approach.

The Corporation reviewed its revenue streams and major contracts with customers under IFRS 15 and determined there were not material changes to net loss or timing of petroleum revenue recognized.

Under IFRS 15, revenue from the sale of commodities is calculated by reference to consideration specified in contracts with customers and recognized when control of the product is transferred to the buyer. The nature of each its performance obligations, including roles of their parties and partners, are evaluated to determine if the Corporation acts as a principal and therefore revenues on a gross basis or as an agent and therefore recognizes revenue on a net basis. The Corporation would act as a principal when it controls the product delivered before the control passes to the customer.

Revenue from the sale of crude oil is recognized based on the consideration specified in contracts with customers. The Corporation recognizes revenue when control of the product transfers to the buyer and collection is reasonably assured. This is generally at the point in time when the customer obtains legal title to the product which is when it is physically transferred to the pipeline or battery.

When allocating the transaction price realized in contracts with multiple performance obligations, the Corporation is required to make estimates of the prices at which the product would sell separately to customers. The Corporation does not currently have ant contracts with multiple performance obligations. See note 12 for additional disclosures required by IFRS 15.

The adoption of IFRS 15 did not materially impact the timing or measurement of revenue. However, IFRS 15 contains new disclosure requirements.

P) Future accounting pronouncement

IFRS 16 - Leases

IFRS 16 was issued in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. This standard is effective for reporting periods beginning on or after January 1, 2019. The Corporation does not believe this new accounting pronouncement will have a material impact.

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
Revisions – decommissioning liabilities		(195,157)	-		(195,157)
Additions		3,163,636	-		3,163,636
Disposals		-	(3,233)		(3,233)
Balance, December 31, 2017		21,709,382	6,377		21,715,759
Revisions – decommissioning liabilities		(317,881)	-		(317,881)
Additions		234,937	-		234,937
Balance, December 31, 2018		21,626,438	6,377		21,632,815
Accumulated Depreciation					
Balance, December 31, 2016		(218,448)	(5,359)		(223,807)
Depletion and depreciation		(910,865)	(2,126)		(912,991)
Balance, December 31, 2017		(1,129,313)	(4,252)		(1,133,565)
Depletion and depreciation		(737,380)	(2,125)		(739,505)
Balance, December 31, 2018		(1,866,693)	(6,377)		(1,873,070)
Net book value, December 31, 2018	**$**	**19,759,745**	**-**	**$**	**19,759,745**
Net book value, December 31, 2017	**$**	**20,580,067**	**2,125**	**$**	**20,582,194**

At December, 2018, future development costs of $42,497,000 (2017 - $42,496,000) associated with proved and probable reserves are included in costs subject to depletion.

The benchmark prices used by the independent reserve evaluators in preparing the Corporation's reserve report are outlined below and were also used in determining whether impairment of the carrying value of the CGU existed at December 31, 2018. The prices are referenced for medium crude oil based on Heavy Crude Oil at Hardisty:

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Cdn$/bbl	$49.68	$57.00	$66.19	$68.09	$70.02	$71.46	$73.90	$77.56	$79.51	$80.22	+2%/yr

The Corporation has reviewed for impairment indicators at December 31, 2018 and determined there were no indicators of impairment.

6. DEBENTURE PAYABLE

	December 31, 2018 ($)	December 31, 2017 ($)
Balance, beginning of year	3,000,000	2,663,207
Accretion in the year	-	336,793
	3,000,000	**3,000,000**
Less: current portion	**(3,000,000)**	**(3,000,000)**
Balance, end of period	-	-

On July 21, 2016, the Corporation issued a 3% secured convertible debenture in the principal amount of $3,000,000 to Kasten (note 5). The debenture matures no later than June 30, 2019, is secured against the property of the Corporation with interest payable monthly. The Corporation is currently discussing an extension to the maturity date of the debenture.

The Corporation may redeem the debenture prior to maturity by a cash payment of the principal.

As at December 31, 2018, interest of $157,500 (December 31, 2017 - $67,500) had not been paid as required under the terms of the original debenture. On April 25, 2018, the debenture holder waived the requirement to pay interest until maturity including the arrears interest.

7. CONVERTIBLE NOTE PAYABLE

On May 16, 2018, the Corporation finalized a credit facility with a corporation controlled by a director (the "Lender"), which provides for a credit facility not exceeding $1,500,000. The advances under the credit facility bear interest at 8% per annum payable monthly and are secured by a General Security Agreement with the minimum advance being $500,000. The Lender will also be paid a structuring fee equal to 2% of the amount of any advance under the credit facility, with a minimum structuring fee of $10,000 payable.

The Lender will have the option to convert the advances under the credit facility into common shares of the Corporation ("Common Shares"). The conversion price per Common Share shall be: (i) $0.08 for the first year of the term of the loan; and (ii) $0.10 for the second year of the term of the loan.

The credit facility matures two years from the date of closing being April 27, 2020. As at December 31, 2018, $500,000 has been advanced under this credit facility and a structuring fee of $10,000 has been paid. In 2019, a further $450,000 has been advanced under this credit facility.

As at December 31, 2018 interest of $6,575 had not been paid as required under the terms of the convertible note payable. As a result of the non-payment of the interest, the principal amount of the debenture becomes a current liability. On April 17, 2019, the convertible note payable holder waived the requirement to pay interest until maturity including the arrears interest.

8. 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 $5,017,254 (December 31, 2017 - $5,017,254) 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 8% (2017 – 7%) and an inflation rate of 2% (2017 – 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	**December 31 2018 ($)**	**December 31 2017 ($)**
Balance, beginning of year	**3,549,422**	3,463,498
Liabilities incurred	**-**	41,128
Revisions to previously recorded liabilities	**(317,881)**	(195,157)
Accretion	**256,477**	239,953
	3,488,018	3,549,422
Current portion (note 13)	**(90,000)**	-
Balance, end of year	**3,398,018**	3,549,422

9. SHARE CAPITAL

A) Authorized

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

B) Issued – common shares of PetroFrontier

	Year Ended December 31, 2018		**Year Ended December 31, 2017**	
	Number of shares	**Amount ($)**	**Number of shares**	**Amount ($)**
Common Shares				
Balance, beginning and end of year	**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.

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

	Year ended December 31, 2018		Year ended December 31, 2017	
	#	Weighted average exercise price	#	Weighted average exercise price
Outstanding, beginning of year	**13,900,000**	**$ 0.16**	13,900,000	$ 0.16
Expired	**(1,100,000)**	**-**	-	-
Outstanding, end of year	**12,800,000**	**$ 0.16**	13,900,000	13,900,000
Exercisable, end of period	**12,800,000**	**$ 0.16**	10,060,000	$ 0.16

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2018.

	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**
$0.16	12,800,000	2.58	$0.16	12,800,000	$0.16

D) Contributed surplus

The following table summarizes the changes in contributed surplus:

	December 31, 2018 ($)	December 31, 2017 ($)
Balance, beginning of year	11,870,862	11,717,009
Share-based compensation expense	41,417	153,853
Balance, end of period	**11,912,279**	**11,870,862**

E) Per common share amounts

	Year ended December 31, 2018	2017
Weighted average number of common shares, end of period – basic & diluted	**149,600,768**	149,600,768

As the Corporation has recorded a loss for the years ended December 31, 2018 and 2017, 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.

F) Management of capital structure

The Corporation's objective 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.

10. SUPPLEMENTAL CASH FLOW INFORMATION

The changes in non-cash working capital for the years ending December 31 is as follows:

	2018 ($)	2017 ($)
Accounts receivable	701,741	103,807
Prepaid expenses and deposits	82,545	(50,674)
Accounts payables and accrued liabilities	30,953	669,969
Change in non-cash working capital	**815,239**	**723,102**

During the years ended December 31, 2018 and 2017, the cash interest received by the Corporation totaled $nil and $6,338, respectively.

11. DEFERRED TAX

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

	Year ended December 31, 2018 ($)	Year ended December 31, 2017 ($)
Net loss before taxes	(2,290,208)	(1,761,506)
Statutory income tax rate	27.0%	27.0%
Expected recovery	(618,400)	(475,600)
Add (deduct):		
Non-deductible share-based compensation	11,200	41,500
Non-deductible accretion and finance costs	-	90,900
Other	1,200	17,600
Change in deferred tax benefits deemed not probable to be recovered	606,000	325,600
Deferred income tax recovery	-	-

The following is a summary of the Corporation's deferred tax asset as at December 31, 2018 and 2017:

	2018		2017	
Deferred income tax assets / (liabilities)	**Australia ($)**	**Canada ($)**	**Australia ($)**	**Canada ($)**
Non-capital loss	14,349,100	3,707,900	14,349,100	3,370,900
Share issue costs	-	-	-	-
Property and equipment	-	109,900	-	(89,900)
Decommissioning liabilities	-	1,027,600	-	958,400
Unrecognized deferred tax assets	(14,349,100)	(4,845,400)	(14,349,100)	(4,239,400)
Total	-	-	-	-

The Corporation has non-capital losses as at December 31, 2018 and 2017 of approximately AUD$49.3 million in Australia which have no expiry and $13.7 million (2015 - $12.5 million) in Canada which expire between 2030 and 2038. Deferred tax assets have not been recognized in respect of all or a portion of these items because it is not probable that future taxable profit will be available against which the Corporation can utilize the benefits.

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

	January 1, 2018 ($)	**Change in temporary difference ($)**	**December 31, 2018 ($)**
Non-capital loss	17,720,000	337,000	18,057,000
Property and equipment	(89,900)	263,600	173,700
Decommissioning liabilities	958,400	5,400	963,800
Unrecognized deferred tax assets	(18,588,500)	(606,000)	(19,194,500)
	-	-	-

	January 1, 2017 ($)	**Change in temporary difference ($)**	**December 31, 2017 ($)**
Non-capital loss	17,689,700	30,300	17,720,000
Property and equipment	(362,000)	272,100	(89,900)
Decommissioning liabilities	935,200	23,200	958,400
Unrecognized deferred tax assets	(18,262,900)	(325,600)	(18,588,500)
	-	-	-

12. 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, deposits, trade and other payables, convertible note payable and debenture. 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.

Credit risk

Credit risk is primarily related to the Corporation's trade receivables from petroleum and natural gas marketers and the risk of financial loss if a marketer fails to meet its contractual obligation. The Corporation's policy to mitigate credit risk associated with these receivables is to establish marketing relationships with large, credit worthy purchasers. The Corporation has not experienced any collection issues with its petroleum and natural gas marketers. As at December 31, 2018 and 2017, the Corporation's trade accounts receivable were all current. There is no material provision expected on the outstanding receivables as at December 31, 2018 and 2017.

Currency risks

The Corporation may be exposed to exchange rate fluctuations in relation to amounts due to services it must purchase in foreign currencies including the Australian and United States dollars. As at December 31, 2018 and 2017, the Corporation did not retain cash and cash equivalents in Australian dollars.

Interest rate risk

At December 31, 2018 and 2017, the Corporation had no outstanding floating interest rate 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 trade and other payables, convertible note payable and the debenture, all of which are current in nature.

With a working capital deficiency of $5,641,812 at December 31, 2018 (2017 – working capital of $3,814,066), which includes unpaid interest on the convertible debenture and the convertible note for $164,075 (2017 - $67,500), the Corporation expects it will have adequate liquidity to fund its existing financial liabilities and ongoing operating and general administrative expenses through its existing operations using its existing credit facilities, upon finalization of the negotiated credit facility (note 18 Subsequent Event) and the continued support of its debenture holder not demanding the repayment of the debenture . Refer also to note 2, Corporate Information and Going Concern.

The pace of future capital investment and the related financial liabilities incurred from the capital investment program will be dependent upon the Corporation's capacity to secure additional equity/debt financing on favorable terms. The Corporation had no defaults or breaches on any of its financial liabilities except as explained in notes 6 and 7. The Corporation expects to satisfy obligations under trade and other payable in less than one year.

The Corporation has a commitment to drill one well by December 31, 2019. The Corporation may be required to secure debt and/or equity financing in order to meet their 2019 capital commitment otherwise the petroleum and natural gas lease may not be renewed.

The following are the contractual maturities of financial liabilities including expected interest payments at December 31, 2018 and 2017:

2018		**Contractual cash flows**	**Less than one year**	**1-3 years**		**Greater than 3 years**
Accounts payable and accrued liabilities	$	2,233,272	2,233,272	-	$	-
Convertible note payable		563,342	-	563,342		-
Debenture payable		3,050,301	3,050,301	-		-
	$	5,846,915	5,283,573	563,342	$	-

2017		**Contractual cash flows**	**Less than one year**	**1-3 years**		**Greater than 3 years**
Accounts payable and accrued liabilities	$	1,924,506	1,924,506	-	$	-
Debenture payable		3,140,300	3,140,300	-		-
	$	5,064,806	5,064,806	-	$	-

Market risk

Market risk is comprised of currency risk, interest rate risk and other price risks which consist primarily of fluctuations in petroleum and natural gas prices. With no bank debt as at December 31, 2018 and 2017 there is no current direct exposure to fluctuations in interest rates. The Corporation is exposed to fluctuations in commodity prices which affects the Corporation's revenue and any adverse fluctuations in interest 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.

13. COMMITMENTS AND CONTINGENCIES

Office lease

The Corporation has an office lease that requires monthly payments of $8,288 and expired March 29, 2019. The lease has been extended to July 31, 2019 at a cost of $8,000 per month.

During the year ended December 31, 2018, the Corporation expensed $82,843 relating to operating leases (2017 - $110,807).

Drilling commitments

The Corporation has an extension, subject to regulatory approval, to drill one well on its existing leases by November 30, 2019 at a cost of approximately $650,000.

In addition, as required under the Development Agreement discussed below, the Corporation is required to spud five (5) test wells and complete, cap, plug or abandon the drilled wells. If the wells are not drilled by the expiry date, the lease shall then terminate with respect to all spacing units within the Leased Lands. The expiry dates are as follows:

- On or before September 30, 2019, one well must be spud
- Between March 31, 2019 and March 30, 2020, an additional two (2) wells must be spud
- Between March 31, 2020 and March 30,2021, an additional two (2) wells must be spud

The Corporation may be required to secure debt and/or equity financing in order to meet their future capital commitment otherwise the petroleum and natural gas leases may not be renewed.

Decommissioning obligations

Pursuant to the Inactive Well Compliance Program ("IWC Program"), the Alberta Energy Regulator (the "AER") identified 13 wells in which the Corporation has a working interest that required some form of surface and/or downhole reclamation work. The AER requested the work be completed by March 31, 2019. Due to unusually inclement weather in the Cold Lake area this winter, there remains 6 of the 13 wells that require reclamation work under the IWC Program. The Corporation is currently awaiting the end of Spring breakup to recommence the work which it expects to complete in July 2019. While the Corporation has not technically complied with its notification requirements under the IWC Program, the AER has not issued any final notices or enforcement action pertaining to its obligations under the IWC Program nor indicated any such notice or action is forthcoming. The Corporation's estimates the reclamation work will cost a total of $90,000 and that amount has been included in the current portion of decommissioning liabilities on the Consolidated Statement of Financial Position at December 31, 2018.

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 continuing with its lawsuit against Macquarie and its defense of the Counterclaim.

Development Agreement

On May 9, 2018, the Corporation entered into a development agreement (the "Agreement") for $250,000 with Bigstone Oil & Gas Ltd., the wholly-owned energy Corporation of the Bigstone Cree Nation. This amount has been included in Exploration and Evaluation Assets on the Statements of Financial Position. The

Agreement provides for the development of an initial 3,040 acres of oil and gas rights from surface to the base of the Mannville in the Wabasca area of north-central Alberta under lease to Bigstone Oil & Gas Ltd. (the "Lease"). The Lease provides for an Alberta Provincial Crown equivalent royalty with a minimum rate of 10%. Under the terms of the Agreement, PetroFrontier, as operator, has the right to earn a 90% before payout working interest and 50% after payout working interest in five earning wells to be drilled by March 31, 2021 and a 50% working interest in the balance of the Lease.

14. REVENUE

On January 1, 2018, the Corporation adopted *IFRS 15, "Revenue from Contracts with Customers"* as detailed in note 3. there was no impact to petroleum revenues as a result of adopting IFRS 15.

The Corporation sells its production pursuant to variable price contracts. The transaction price for variable price contracts is based on the commodity price and then adjusted for quality which includes the cost of diluent, location or other factors whereby each component of the pricing formula can be either fixed or variable depending on the contract terms. Revenue is recognized at a point in time when a unit of production is delivered to the counterparty. The Corporation considers the delivery of each barrel of blended bitumen to be a distinct performance obligation as each barrel has the same use and value to the counterparty and that value is not related to or dependent upon the other contracted barrels.
The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to the Corporation's efforts to transfer production and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable revenue is considered constrained.

Crude oil is sold under contracts of varying price and volume terms of up to one year. Revenues are typically collected on the 25th day of the month following production.

15. EXPENSES BY NATURE

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

	Year ended December 31	
	2018 ($)	**2017 ($)**
Salaries and benefits	862,406	1,045,538
Office costs	322,297	397,589
Professional fees	250,985	258,943
Corporate and regulatory	25,395	14,094
	1,461,083	**1,716,164**

The main components of the Corporation's finance expense are as follows:

	Year ended December 31	
	2018 ($)	**2017 ($)**
Interest on debentures	90,000	90,000
Interest on convertible note payable	21,981	-
Accretion of debentures	-	336,793
	111,981	**426,793**

16. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	Year ended December 31	
	2018 ($)	**2017 ($)**
Salaries, directors' fees and other benefits	698,698	782,094
Share-based compensation	34,624	128,612
	733,322	**910,706**

17. RELATED PARTIES

The Corporation is related to Kasten Energy Inc. ("Kasten") as a director of the Corporation is also an officer of Kasten. Pursuant to the Agreement of Purchase & Sale regarding the Kasten assets, Kasten agreed to act as a bare trustee which primarily included receiving the monthly cash receipts from petroleum and natural gas sales and forwarding the monies to the Corporation.

Other related party transactions are as follows:

- The $3,000,000 debenture issued to Kasten as part of the 2016 purchase consideration remains outstanding.
- Interest expense for the year ended December 31, 2018 related to Kasten debenture (note 6) of $90,000 (2017 - $90,000) was recorded in the Statement of Loss and Comprehensive Loss. At December 31, 2018, $157,500 (December 31, 2017 - $67,500) remains unpaid and is included in trade and other payables.
- The convertible note payable of $500,000 is owing to a Corporation controlled by a director. Interest expense for the year ended December 31, 2018 of $23,342 and a $10,000 structuring fee was paid and recorded in the Statement of Loss and Comprehensive Loss. At December 31, 2018, interest payable of $6,575 is included in trade and other payables.
- In 2018, the Corporation acquired $2,205 (2017 - $404,644) of drilling inventory at fair value from a supplier in which a director holds an interest. At December 31, 2018, $128,696 (December 31, 2017 - $294,265) is included in trade and other payables.

18. SUBSEQUENT EVENT

2019 Credit facility

On April 23, 2019, the Corporation signed a Term Sheet with a corporation controlled by a director which will provide for a credit facility not exceeding $2,000,000. The advances under the credit facility will bear interest at 8% per annum payable monthly, are secured by a General Security Agreement with a minimum advance being at least $200,000.

The lender will have the option to convert the advances under the credit facility into common shares of the Corporation. The conversion price of the common shares of the Corporation shall be (i) the closing price of the shares of the Corporation on the TSXV on the day of acceptance for the first year of the term of the loan and (ii) $0.10 for the second year of the term of the loan.

The finalization of this credit facility agreement is subject to due diligence and regulatory approval. This credit facility is for a term of two years will mature on April 23, 2021.

Directors

Robert J. Iverach
Chairman of the Board
Calgary, Alberta

Kelly Kimbley
Chief Executive Officer and
President, PetroFrontier Corp.
Calgary, Alberta

Al Kroontje
Businessman
Calgary, Alberta

Michael Hibberd
Businessman
Calgary, Alberta

Paul Cheung
Businessman
Calgary, Alberta

Officers

Kelly Kimbley
Chief Executive Officer and
President

Robert Gillies
Vice President Finance and
Chief Financial Officer

Ulrich Wirth
Vice-President Exploration

Omar El-Hajjar
Vice-President Operations

David Orr
Vice-President Business
Development

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