PetroFrontier

Annual Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018;
- 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 to the consolidated financial statements, which describes events or 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.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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
June 11, 2020

PetroFrontier Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian Dollars)

As at	December 31, 2019	December 31, 2018
ASSETS		
Current		
Cash	$ -	$ 76,766
Trade and other receivables	352,754	46,422
Prepaid expenses and deposits	65,863	58,272
	418,617	181,460
Property and equipment (note 5)	18,711,009	19,759,745
Exploration and evaluation assets (note 13)	250,000	250,000
	$ 19,379,626	**$ 20,191,205**
LIABILITIES		
Current		
Bank overdraft	$ 277,758	$ -
Trade and other payables	1,887,739	2,233,272
Current portion of decommissioning liabilities (note 8)	330,000	90,000
Debenture (note 6)	2,946,480	3,000,000
Convertible note payable (note 7)	500,000	500,000
	5,941,977	5,823,272
Convertible note payable (note 7)	553,303	-
Decommissioning liabilities (note 8)	2,716,976	3,398,018
	9,212,256	9,221,290
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	131,202,046	131,202,046
Contributed surplus (Note 9)	11,934,509	11,912,279
Accumulated other comprehensive loss	(5,269,883)	(5,269,883)
Deficit	(127,699,302)	(126,874,527)
	10,167,370	10,969,915
	$ 19,379,626	**$ 20,191,205**

See notes to the consolidated financial statements

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

PetroFrontier Corp.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Canadian Dollars)

		Years ended December 31		
		2019		**2018**
PETROLEUM SALES (note 14)	$	3,112,833	$	3,557,724
Less: royalties		(249,411)		(288,950)
Revenue		**2,863,422**		**3,268,774**
EXPENSES				
Production operating costs		1,783,867		2,948,519
General and administrative (note 15)		1,101,494		1,461,083
Depletion and depreciation (note 5)		431,597		739,505
Accretion on decommissioning liabilities (note 8)		287,525		256,477
Fair value adjustment of debenture payable (note 6)		(195,000)		-
Share-based compensation (note 9)		-		41,417
		3,409,483		**5,447,001**
Finance expense (note 15)		278,714		111,981
		3,688,197		**5,558,982**
NET and COMPREHENSIVE LOSS	**$**	**(824,775)**	**$**	**(2,290,208)**
Net loss per share				
Basic and diluted (note 9)	**$**	**(0.01)**	**$**	**(0.02)**

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, 2019	**131,202,046**	**11,912,279**	**(5,269,883)**	**(126,874,527)**	**10,969,915**
Net loss	-	-	-	(824,775)	(824,775)
Equity component of convertible note payable	-	22,230	-	-	22,230
Balance at Dec. 31, 2019	**131,202,046**	**11,934,509**	**(5,269,883)**	**(127,699,302)**	**10,167,370**
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)	(2,290,208)
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**

See notes to the consolidated financial statements

PetroFrontier Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Canadian dollars)

	For the year ended December 31	
	2019	**2018**
Cash provided by (used in)		
OPERATING		
Net loss	$ (824,775)	$ (2,290,208)
Items not affecting cash:		
Depletion and depreciation	431,597	739,505
Accretion on decommissioning liabilities	287,525	256,477
Share-based compensation (Note 9)	-	41,417
Fair value adjustment of debenture	(195,000)	-
Convertible debt accretion (Note 7)	147,013	-
Change in non-cash working capital (Note 10)	(585,125)	815,239
Cash flow used in operating activities	**(738,765)**	**(437,570)**
INVESTING		
Expenditures on property and equipment	(185,759)	(50,125)
Expenditures on exploration and evaluation assets	-	(157,000)
Cash flow used in investing activities	**(185,759)**	**(207,125)**
FINANCING		
Proceeds of convertible note payable (Note 7)	570,000	500,000
Decrease in cash and cash equivalents	(354,524)	(144,695)
Cash and cash equivalents and term deposits, beginning of year	76,766	221,461
(Bank overdraft) cash and cash equivalents, end of year	**$ (277,758)**	**$ 76,766**
Interest paid in the year	**$ -**	**$ 16,767**

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, 2019 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 2019 net loss of $824,775 and has a working capital deficiency of $5,523,360 (December 31, 2018 - $5,641,812). 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 represented by convertible notes payable and has raised equity capital to date in 2020 of $1,500,000 as explained in note 18, *Subsequent Event*. The initial credit facility was negotiated in 2018 to a maximum $1,500,000 and a second credit facility was negotiated in April 2019 to a maximum of $2,000,000 and are further described in note 7. The Corporation has also taken steps to reduce operational costs and has extended the maturity date of the debenture for a further year.

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, 2019. On June 11, 2020, 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.

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus ("COVID-19"). The outbreak and subsequent measures intended to limit the pandemic contributed to significant declines and volatility in financial markets. The pandemic adversely impacted global commercial activity, including significantly reducing worldwide demand for crude oil. Crude oil prices have also been severely impacted by increased global supply due to disagreements over production restrictions between the Organization of Petroleum Exporting Countries ("OPEC") and non-OPEC members, primarily Saudi Arabia and Russia. The full extent of the impact of COVID-19 on the Company's operations and future financial performance is currently unknown. It will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, its continued impact on capital and financial markets on a macro-scale and any new information that may emerge concerning the severity of the virus. These uncertainties may persist beyond when it is determined how to contain the virus or treat its impact. The outbreak presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by Management in the preparation of its financial results.

The outbreak and current market conditions have increased the complexity of estimates and assumptions used to prepare the Consolidated Financial Statements, particularly related to the following key sources of estimation uncertainty: Recoverable Amounts Determining the recoverable amount of a cash-generating unit ("CGU") or an individual asset requires the use of estimates and assumptions, which are subject to change as new information becomes available. For example, the severe drop in commodity prices, due to reasons noted above, have increased the risk of measurement uncertainty in determining the recoverable amounts, especially estimating economic crude oil and natural gas reserves and estimating forward commodity prices. Management uses judgment to assess the existence and to estimate the future liability. In the current economic environment, the expected total annual earnings or expected earnings is subject to

measurement uncertainty. Changes to these assumptions could result in a material adjustment to the carrying amount of assets and liabilities within the next financial year. 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 notes payable

Compound financial instruments issued by the Corporation may 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

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, bank overdraft, trade and other payables, convertible notes 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

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.

(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) Leases

Policy applicable from January 1, 2019

The Company assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration. The Company allocates the consideration in the contract to each lease component based on their relative stand-alone prices.

Leases are recognized as a Right-of Use ("ROU") asset and a corresponding lease liability at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. These payments are discounted using the Company's incremental borrowing rate when the rate implicit in the lease is not readily available. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. Lease payments are allocated between the liability and finance costs. The finance cost is charged to net earnings over the lease term. The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Company will exercise a purchase, extension or termination option that is within the control of the Company.

When the lease liability is re-measured, a corresponding adjustment is made to the carrying amount of the ROU asset or is recorded in the Statements of Operations and Comprehensive Loss if the carrying amount of the ROU asset has been reduced to zero.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability, any initial direct costs incurred, and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located less any lease payments made at or before the commencement date. The ROU asset is depreciated, on a straight-line basis, over the shorter of the estimated useful life of the asset or the lease term. The ROU asset may be adjusted for certain re-measurements of the lease liability and impairment losses. Leases that have terms of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in the Statements of Operations and Comprehensive Loss on a straight-line basis over the lease term. A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, at the effective date of the lease modification, the Company will re-measure the lease liability using the Company's incremental borrowing rate, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the ROU asset. A modification that decreases the scope of the lease will be accounted for by decreasing the carrying amount of the ROU asset, and recognizing a gain or loss in net loss that reflects the proportionate decrease in scope.

ROU assets are assessed for impairment on initial recognition and subsequently on an annual basis, at a minimum. ROU assets subject to leases that have become onerous in nature are adjusted by the amount of any provision for onerous leases.

Policy applicable before January 1, 2019

Leases in which substantially all of the risks and rewards of ownership are retained by the counterparty are classified as operating leases. Operating lease payments are recognized as an expense in the period in which they are incurred.

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases.

P) Changes in accounting policies

IFRS 16

The Company has adopted the new accounting standard, **IFRS 16 Leases**, effective January 1, 2019. The adoption of this standard had no material impact on the financial statements:

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

		Oil & Gas Properties	Office Equipment		Total
Cost					
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
Revisions – decommissioning liabilities		(728,567)	-		(728,567)
Additions		111,428	-		111,428
Balance, December 31, 2019	$	21,009,299	6,377	$	21,015,676
Accumulated Depreciation					
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)
Depletion and depreciation		(431,597)	-		(431,597)
Balance, December 31, 2019	$	(2,298,290)	(6,377)	$	(2,304,667)
Net book value, December 31, 2019	**$**	**18,711,009**	**-**	**$**	**18,711,009**
Net book value, December 31, 2018	**$**	**19,759,745**	**-**	**$**	**19,759,745**

At December 31, 2019, future development costs of $43,386,000 (2018 - $42,497,000) 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, 2019. The prices are referenced for medium crude oil based on Heavy Crude Oil at Hardisty:

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Cdn$/bbl	$58.00	$62.50	$64.00	$66.00	$68.00	$71.00	$73.00	$76.00	$78.00	+2%/yr

As a result of the market conditions and the decline in the benchmark price estimates, the Corporation determined there were indicators of impairment as at December 31, 2019. As a result of the impairment

testing, using a 13% discount related to future cash flows, there was no impairment recorded at December 31, 2019.

6. DEBENTURE PAYABLE

	December 31, 2019 ($)	December 31, 2018 ($)
Balance, beginning of year	3,000,000	3,000,000
Fair value adjustment	(195,000)	-
Accretion in the year	141,480	-
	2,946,480	**3,000,000**
Less: current portion	**(2,946,480)**	**(3,000,000)**
Balance, end of year	**-**	**-**

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 was to mature no later than June 30, 2019 and is secured against the property of the Corporation. In June 2019, the debenture holder extended, at no cost to the Corporation, the maturity date of the debenture for one year subject to a 60-day notice period dependent on certain events occurring, with interest payable at maturity and has cancelled the conversion feature contained in the original debenture issued in 2016.

On remeasurement, the liability component of the debenture was recognized at its fair value based on a market rate of 10%. The difference between the face value of the debenture and the fair value, being $195,000, will be accreted over the life of the debenture through profit and loss.

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

As at December 31, 2019, interest of $247,500 (2018 - $157,500) has been accrued.

The Corporation is in discussions with the debenture holder to extend the maturity date beyond June 30, 2020.

7. CONVERTIBLE NOTES PAYABLE

		#1	#2		Total
Balance, beginning of year	$	500,000	-	$	500,000
Advances in the year		-	570,000		570,000
Equity component of the liability		-	(22,230)		(22,230)
Accretion of the note payable		-	5,533		5,533
		500,000	553,303		1,053,303
Less; current portion		(500,000)	-		(500,000)
Balance, December 31, 2019	$	-	553,303	$	553,303

Convertible Note #1

On May 16, 2018, the Corporation finalized a credit facility with a corporation controlled by a former 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 at maturity and are secured by a General Security Agreement with the minimum advance being $500,000.

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 was to mature two years from the date of closing being April 27, 2020, however, the amount was repaid in the first quarter of 2020 and the facility was cancelled. As at December 31, 2019, interest of $44,318 has been accrued.

Convertible Note #2

On June 3, 2019, the Corporation finalized a credit facility with a corporation, related by common directorship, (the "Lender"), which provides for a credit facility not exceeding $2,000,000. The advances under the credit facility bear interest at 8% per annum payable at maturity and are secured by a General Security Agreement.

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) $0.065 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 June 3, 2021. As at December 31, 2019, $570,000 has been advanced under this credit facility. A further $500,000 was advanced under this facility in 2020.

Convertible Note #2 is comprised of both a debt and equity component. The debt component represents the discounted present value of the principal payment required at maturity, using an interest rate of 10% that would have been applicable to a non-convertible debt instrument of comparable risk and term at the date of issuance. The equity component represents the conversion feature and in included in Contributed Surplus.

As at December 31, 2019 interest of $20,767 has been accrued.

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 9% (2018 – 8%) and an inflation rate of 2% (2018 – 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, 2019 ($)	December 31, 2018 ($)
Balance, beginning of year	**3,488,018**	3,549,422
Revisions to previously recorded liabilities	**(728,567)**	(317,881)
Accretion	**287,525**	256,477
	3,046,976	3,488,018
Current portion (note 13)	**(330,000)**	(90,000)
Balance, end of year	**2,716,976**	3,398,018

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, 2019		Year Ended December 31, 2018	
	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, 2019			Year ended December 31, 2018		
	#	Weighted average exercise price		#	Weighted average exercise price	
Outstanding, beginning of year	**12,800,000**	**$**	**0.16**	13,900,000	$	0.16
Expired	**-**		**-**	(1,100,000)		-
Outstanding, end of year	**12,800,000**	**$**	**0.16**	12,800,000	$	0.16
Exercisable, end of period	**12,800,000**	**$**	**0.16**	12,800,000	$	0.16

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2019.

		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	1.58	$0.16	12,800,000	$0.16

D) Contributed surplus

The following table summarizes the changes in contributed surplus:

	December 31, 2019 ($)	December 31, 2018 ($)
Balance, beginning of year	11,912,279	11,870,862
Equity component of convertible note payable	22,230	-
Share-based compensation expense	-	41,417
Balance, end of year	**11,934,509**	11,912,279

E) Per common share amounts

	Year ended December 31, 2019	2018
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, 2019 and 2018, 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:

	2019 ($)	2018 ($)
Accounts receivable	(306,332)	701,741
Prepaid expenses and deposits	(7,591)	82,545
Accounts payables and accrued liabilities	(271,202)	30,953
Change in non-cash working capital	**(585,125)**	**815,239**

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, 2019 ($)	Year ended December 31, 2018 ($)
Net loss before taxes	(824,775)	(2,290,208)
Statutory income tax rate	26.5%	27.0%
Expected recovery	(218,600)	(618,400)
Add (deduct):		
Non-deductible share-based compensation	-	11,200
Non-deductible expenses	1,200	-
Effect of change in income tax rates	746,500	-
Other	1,400	1,200
Adjustment in respect to prior years	(57,500)	-
Change in deferred tax benefits deemed not probable to be recovered	(473,000)	606,000
Deferred income tax recovery	**-**	**-**

The tax rate consists of the combined federal and provincial statutory tax rates for the Company and its subsidiaries for the years ended December 31, 2019 and 2018. The general Provincial tax rate in Alberta was decreased on June 28, 2019 from 12 percent to 11 percent for the second half of 2019.

This 2019 Government of Alberta corporate income tax reduction also contemplates the provincial corporate tax rate from reducing from 12 percent to 8 percent over four years. As a result, the Company has a $746,500 adjustment in the reconciliation of expected income taxes for the year ended December 31, 2019.

The following is a summary of the Corporation's deferred tax asset as at December 31, 2019 and 2018:

	2019		**2018**	
Deferred income tax assets / (liabilities)	**Australia ($)**	**Canada ($)**	**Australia ($)**	**Canada ($)**
Non-capital loss	14,349,100	3,192,900	14,349,100	3,707,900
Share issue costs	-	-	-	-
Property and equipment	-	971,900	-	173,700
Decommissioning liabilities	-	219,900	-	963,800
Debenture	-	(12,300)	-	-
Unrecognized deferred tax assets	(14,349,100)	(4,372,400)	(14,349,100)	(4,845,400)
Total	**-**	**-**	**-**	**-**

The Corporation has non-capital losses as at December 31, 2019 and 2018 of approximately AUD$49.3 million in Australia which have no expiry and $13.9 million (2018 - $13.7 million) in Canada which expire between 2030 and 2039. 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, 2019 ($)	**Change in temporary difference ($)**	**December 31, 2019 ($)**
Non-capital loss	18,057,000	(515,000)	17,542,000
Property and equipment	173,700	798,200	971,900
Debenture	-	(12,300)	(12,300)
Decommissioning liabilities	963,800	(743,900)	219,900
Unrecognized deferred tax assets	(19,194,500)	473,000	(18,721,500)
	-	**-**	**-**

	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)
	-	**-**	**-**

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, bank overdraft, 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, 2019 and 2018, the Corporation's trade accounts receivable were all current. There is no material provision expected on the outstanding receivables as at December 31, 2019 and 2018.

Currency risks

Foreign currency risk is the risk that future cash flow will fluctuate as a result of changes in foreign exchange rates. Although all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market price in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian dollar and the United States dollar. The Company has no forward exchange rate contracts in place as at December 31, 2019 and 2018.

Interest rate risk

At December 31, 2019 and 2018, 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 bank overdraft, trade and other payables, convertible note payable and the debenture, most of which are current in nature.

With a working capital deficiency of $5,523,360 at December 31, 2019 (2018 – $5,641,812), 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, proceeds from the issuance of share capital (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 – see Subsequent Event and discussion of Coronavirus. The Corporation had breached a condition of Convertible Note #1 and on April 27, 2019 the holder of Convertible Note #1 waived the default. There have been no other breaches of debt covenants in 2019. The Corporation expects to satisfy obligations under trade and other payable in less than one year.

The Corporation has a commitment to spud four wells in 2020 of which one has been spud to date. As discussed in note 13, Drilling commitments, the Corporation is in discussion to extend the expiry dates for drilling the other three wells. The Corporation may be required to secure debt and/or equity financing or re-negotiate the timeline in order to meet their 2020 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, 2019 and 2018:

2019	**Contractual cash flows**	**Less than one year**	**1-3 years**	**Greater than 3 years**
Bank overdraft	$ 277,758	$ 277,758	$ -	$ -
Accounts payable and accrued liabilities	1,887,740	1,887,740	-	-
Convertible notes payable	1,213,018	557,651	655,367	-
Debenture payable	3,292,500	3,292,500	-	-
	$ 6,671,016	$ 6,015,649	$ 655,367	$ -

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	$ -

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, 2019 and 2018 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 had an office lease that required monthly payments of $8,288 and expired March 29, 2019. The lease was extended to July 31, 2019 and is now on a month to month basis at $8,000 per month.

During the year ended December 31, 2019, the Corporation expensed $79,815 relating to operating leases (2018 - $82,843).

Drilling commitments

The Corporation has an extension, subject to regulatory approval, to drill one well on its existing Cold Lake leases by November 30, 2020 at a cost of approximately $650,000.

As set out under the Big Stone 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 respective expiry dates, the lease shall then terminate with respect to all unearned spacing units within the Leased Lands. The expiry dates are as follows:

- One well to be spud on or before March 31, 2020 and this well was completed prior to the due date
- Two (2) wells to be spud by July 31, 2020 (due to the COVID-19 pandemic, discussions are underway to secure an extension pertaining to this requirement)
- An additional two (2) wells must be spud by March 30, 2021.

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 22 wells in which the Corporation has a working interest that required some form of surface and/or downhole reclamation work. As a result of the Covid -19 pandemic, the AER has extended the date for compliance of the reclamation work to August 31, 2020. The Corporation's estimates the reclamation work will cost a total of $330,000 and that amount has been included in the current portion of decommissioning liabilities on the Consolidated Statement of Financial Position at December 31, 2019.

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. To date, one earning well has been drilled.

14. REVENUE

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	
	2019 ($)	**2018 ($)**
Salaries and benefits	585,476	862,406
Office costs	275,005	322,297
Professional fees	210,882	250,985
Corporate and regulatory	30,131	25,395
	1,101,494	**1,461,083**

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

	Year ended December 31	
	2019 ($)	**2018 ($)**
Interest on debentures	85,772	90,000
Interest on convertible notes payable	45,929	21,981
Accretion of debentures	147,013	-
	278,714	**111,981**

16. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	Year ended December 31	
	2019 ($)	**2018 ($)**
Salaries, directors' fees and other benefits	472,226	698,698
Share-based compensation	-	34,624
	472,226	**733,322**

17. RELATED PARTIES

The Corporation is related to Kasten Energy Inc. ("Kasten") as a director of the Corporation is also a director 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 (note 6).
- Interest expense for the year ended December 31, 2019 related to Kasten debenture (note 6) of $90,000 (2018 - $90,000) was recorded in the Statement of Loss and Comprehensive Loss. At December 31, 2019, $247,500 (December 31, 2018 - $157,500) remains unpaid and is included in trade and other payables.
- Convertible note payable #1 of $500,000 is owing to a Corporation controlled by a former director at the time of the advance. Interest expense for the year ended December 31, 2019 was $40,000 (2018 - $23,342 and a $10,000 structuring fee was paid) and recorded in the Statement of Loss and Comprehensive Loss. At December 31, 2019, interest payable of $44,318 (2018 - $6,575) is included in trade and other payables.
- Convertible note payable #2 of $570,000 is owing to a Corporation, related by a common director. Interest expense for the year ended December 31, 2019 was $20,767 and a $10,000 structuring fee was incurred and recorded in the Statement of Loss and Comprehensive Loss. At December 31, 2019, interest payable of $20,767 is included in trade and other payables.
- In 2018, the Corporation acquired $2,205 of drilling inventory at fair value from a supplier in which a director held an interest. At December 31, 2019, $128,696 (December 31, 2018 - $128,696) is included in trade and other payables.
- The Corporation recovered rent and other office expenses from corporations related by a common director in 2019 of $19,200 (2018 - $21,926).

18. SUBSEQUENT EVENTS

Funding Transaction

During 2019, the Corporation had entered into a letter of intent and related term sheet with an arm's-length third party funder whereby the third party funder and its affiliates (collectively, the "Funder") would provide funding to allow the Corporation to further develop its interests in the Cold Lake and Wabasca areas of Alberta. In April 2020, the Corporation and Funder terminated discussions on the proposed funding transaction.

Issuance of common shares

The Corporation completed a non-brokered private placement for aggregate gross proceeds of $1,500,000 (the "Private Placement") whereby the Company issued an aggregate of 28,571,429 common shares ("Common Shares") from its treasury at a price of $0.0525 per Common Share. Proceeds from the Private Placement will be used to fund development and provide additional working capital to the Company.

Covid – 19

The novel coronavirus ("COVID-19") outbreak was declared a pandemic by the World Health Organization on March 11, 2020. This has resulted in significant economic uncertainty and governments worldwide are enacting emergency measures to contain the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global financial markets have experienced significant volatility and weakness as a consequence of this economic uncertainty. The duration and impact of the COVID19 outbreak is unknown as this time, as is the effectiveness of interventions by governments and central banks. The full extent of the impact on the Company's future financial results is uncertain given the length and severity of these developments cannot be reliably estimated. The Covid 19 outbreak could have a significant impact on the Corporation's ability to secure additional financing and future impairment calculations.

Directors

Michael Hibberd
Chairman of the Board
Calgary, Alberta

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

Kenneth DeWyn
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