PetroFrontier

Condensed Interim Consolidated Financial Statements

September 30, 2019

THIRD QUARTER 2019 CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed interim consolidated financial statements for the period ended September 30, 2019.

NOTICE TO READER OF THE INTERIM FINANCIAL STATEMENTS

The condensed interim consolidated financial statements of PetroFrontier Corp. comprising the accompanying condensed consolidated statement of financial position as at September 30, 2019 and the condensed consolidated statement of loss and comprehensive loss, changes in equity and cash flows for the three and nine-month period then ended are the responsibility of the Company's management.

These consolidated financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, PricewaterhouseCoopers LLP. The condensed interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these condensed interim consolidated financial statements in accordance with International Financial Reporting Standards.

Signed: "Kelly Kimbley"	Signed: "Robert Gillies"
Kelly Kimbley	Robert Gillies
Chief Executive Officer	Chief Financial Officer

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

As at	Note	September 30, 2019	December 31, 2018
		(Unaudited)	*(Audited)*
ASSETS			
Current			
Cash		$ -	$ 76,766
Trade and other receivables		570,018	46,422
Prepaid expenses and deposits		81,991	58,272
		652,009	181,460
Property and equipment	**5**	19,534,157	19,759,745
Exploration and evaluation assets	**12**	250,000	250,000
		$ 20,436,166	**$ 20,191,205**
LIABILITIES			
Current			
Bank overdraft		$ 3,620	$ -
Trade and other payables		2,432,250	2,233,272
Current portion of decommissioning liabilities	**8**	330,000	90,000
Debenture	**6**	2,896,989	3,000,000
Convertible note payable	**7**	500,000	500,000
		6,162,859	5,823,272
Convertible note payable	**7**	435,222	500,000
Decommissioning liabilities	8	3,371,513	3,398,018
		9,969,594	9,221,290
SHAREHOLDERS' EQUITY			
Share capital	**9**	131,202,046	131,202,046
Contributed surplus	**9**	11,929,829	11,912,279
Accumulated other comprehensive loss		(5,269,883)	(5,269,883)
Deficit		(127,395,420)	(126,874,527)
		10,466,572	10,969,915
		$ 20,436,166	**$ 20,191,205**

See notes to the condensed interim consolidated financial statements

Going concern (note 2)
Commitments and contingencies (Note 12)
Subsequent event (note 15)

PetroFrontier Corp.

CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Unaudited)
(Canadian Dollars)

	Three months ended September 30		Nine months ended September 30	
	2019	**2018**	**2019**	**2018**
PETROLEUM REVENUE	743,601	1,070,613	2,476,535	3,282,294
Less: royalties	(75,385)	(86,929)	(209,667)	(258,959)
	668,216	**983,684**	**2,266,868**	**3,023,335**
EXPENSES				
Production operating costs	459,149	912,645	1,297,171	2,265,817
General and administrative (note 13)	272,080	349,331	935,741	1,145,676
Depletion and depreciation (note 5)	101,338	196,718	328,794	614,034
Accretion on decommissioning liabilities (note 8)	72,576	64,842	213,495	190,491
Fair value adjustment of debenture payable (note 6)	-	-	(195,000)	-
Share-based compensation	-	5,917	-	41,417
	905,143	**1,529,453**	**2,580,201**	**4,257,435**
Finance expense (note 13)	**93,057**	**32,138**	**207,560**	**79,957**
NET AND COMPREHENSIVE LOSS	**(329,984)**	**(577,907)**	**(520,893)**	**(1,314,057)**
Net loss per share				
Basic and diluted (note 9)	**0.00**	**0.00**	**0.00**	**(0.01)**

See notes to the condensed interim consolidated financial statements

PetroFrontier Corp.

CONDENSED 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	-	-	-	(520,893)	(520,893)
Equity component of convertible note payable	-	17,550	-	-	17,550
Balance at September 30, 2019	**131,202,046**	**11,929,829**	**(5,269,883)**	**(127,395,420)**	**10,466,572**
Balance at January 1, 2018	**131,202,046**	**11,870,862**	**(5,269,883)**	**(124,584,319)**	**13,218,706**
Net loss	-	-	-	(1,314,057)	(1,314,057)
Share-based compensation	-	41,417	-	-	41,417
Balance at September 30, 2018	**131,202,046**	**11,912,279**	**(5,269,883)**	**(125,898,376)**	**11,946,066**

See notes to the condensed interim consolidated financial statements

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

	Note		Nine months ended March 31, 2019		2018
Cash provided by (used in)					
OPERATING					
Net loss		$	(520,893)	$	(1,314,057)
Depletion and depreciation	**5**		328,794		614,034
Accretion on decommissioning liabilities	**8**		213,495		190,491
Accretion on debt	**13**		94,761		-
Fair value adjustment of debenture	**6**		(195,000)		-
Share-based compensation			-		41,417
Change in non-cash working capital	**10**		(388,648)		30,230
Cash flow used in operating activities			**(467,491)**		**(437,885)**
FINANCING					
Advance on convertible note payable			450,000		500,000
Cash flow provided by financing activities			**450,000**		**500,000**
INVESTING					
Expenditures on property and equipment			(62,895)		(161,178)
Cash flow used in investing activities			**(62,895)**		**(161,178)**
Decrease in cash and cash equivalents			(80,386)		(99,063)
Cash and term deposits, beginning of year			76,766		221,461
(Bank overdraft) cash, end of period		**$**	**(3,620)**	**$**	**122,398**

See notes to the condensed interim 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 the three and nine months ended September 30, 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 $520,893, and has a working capital deficiency of $5,510,850 (December 31, 2018 - $5,641,812). Refer to Note 11 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 and a funding arrangement explained in note 15, *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 or farmouts. 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

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, IAS 34 – *Interim financial reporting ("IAS 34").*

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of November 27, 2019, the date the condensed interim consolidated financial statements were approved by the Corporation's Audit Committee for issuance. The policies applied are consistent throughout all periods presented in these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements should be read in conjunction with the Corporation's 2018 annual consolidated financial statements.

B) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except as disclosed in note 4 to the 2018 annual consolidated financial statements.

C) Functional and presentation currency

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

D) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements are outlined in the Company's financial statements for the year ended December 31, 2018.

4. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim financial statements should be read in conjunction with the annual financial statements and accompanying notes for the year ended December 31, 2018. These condensed interim financial statements have been prepared following the same accounting policies as described in note 4 of the Company's annual consolidated financial statements for the year ended December 31, 2018 except as noted below:

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. This new accounting pronouncement did not have a material impact as the Corporation has no leases extending beyond 12 months.

NOTES *(continued)*

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
Additions		103,206	-		103,206
Balance, September 30, 2019	$	21,729,644	6,377	$	21,736,021
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		(328,794)	-		(328,794)
Balance, September 30, 2019	$	(2,195,487)	(6,377)	$	(2,201,864)
Net book value, September 30, 2019	**$**	**19,567,388**	**-**	**$**	**19,534,157**
Net book value, December 31, 2018	**$**	**19,759,745**	**-**	**$**	**19,759,745**

At September 30, 2019, future development costs of $42,497,000 (2018 - $42,496,000) associated with proved and probable reserves are included in costs subject to depletion.

The Corporation has reviewed for impairment indicators at September 30, 2019 and determined there were no indicators of impairment.

6. DEBENTURE PAYABLE

	September 30, 2019 ($)	December 31, 2018 ($)
Balance, beginning of year	3,000,000	3,000,000
Fair value adjustment	(195,000)	
Accretion in the year	91,989	-
	2,896,989	**3,000,000**
Less: current portion	**(2,896,989)**	**(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 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.

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.

7. CONVERTIBLE NOTES PAYABLE

		#1	#2		Total
Balance, beginning of year	$	500,000	-	$	500,000
Advances in the period		-	450,000		450,000
Equity component of the liability		-	(17,550)		(17,550)
Accretion of the note payable		-	2,772		2,772
		500,000	435,222		935,222
Less; current portion		(500,000)	-		(500,000)
Balance, September 30, 2019	$	-	435,222	$	435,222

Convertible Note #1

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 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 matures two years from the date of closing being April 27, 2020. As at September 30, 2019, $500,000 has been advanced as Convertible Note #1 under this credit facility.

Convertible Note #2

On June 3, 2019, the Corporation finalized a credit facility with a corporation controlled by a director (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 September 30, 2019, $450,000 has been advanced under this credit facility.

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.

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, 2018 - $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% (2018 – 7%) 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	**September 30 2019 ($)**	**December 31 2018 ($)**
Balance, beginning of year	**3,488,018**	3,549,422
Revisions to previously recorded liabilities	**-**	(317,881)
Accretion	**213,495**	256,477
	3,701,513	3,488,018
Current portion (note 12)	**(330,000)**	(90,000)
Balance, end of period	**3,371,513**	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

	Nine Months Ended September 30, 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:

	Nine months ended September 30, 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 September 30, 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	1.83	$0.16	12,800,000	$0.16

D) Contributed surplus

The following table summarizes the changes in contributed surplus:

	September 30, 2019 ($)	**December 31, 2018 ($)**
Balance, beginning of year	11,912,279	11,870,862
Equity component of convertible note payable	17,550	-
Share-based compensation expense	-	41,417
Balance, end of period	**11,929,829**	11,912,279

E) Per common share amounts

	Nine months ended September 30, **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 nine months ended September 30, 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 capital base so as 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.

10. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2019 ($)	**2018 ($)**
Accounts receivable	(523,596)	102,462
Prepaid expenses and deposits	(23,718)	27,927
Accounts payables and accrued liabilities	158,666	(100,159)
Change in non-cash working capital	**(388,648)**	**30,230**

11. 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 notes and debenture payable. The fair value of these financial instruments approximates their carrying amounts due to their short terms to maturity except for the convertible notes payable and debenture which have been fair valued as previously described.

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 September 30, 2019 and December 31, 2018, the Corporation's trade accounts receivable were all current. There is no material provision expected on the outstanding receivables as at September 30, 2019.

Interest rate risk

At September 30, 2019 and December 31, 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 trade and other payables, convertible notes payable and the debenture, all of which are current in nature.

The Corporation has a working capital deficiency of $5,510,850 at September 30, 2019 (December 31, 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 and using its existing credit facilities, refer also to note 2, *Going Concern* and note 15, *Subsequent Event*.

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 has no defaults or breaches on any of its financial liabilities. The Corporation expects to satisfy obligations under trade and other payable in less than one year.

The Corporation's commitment to drill two wells in 2019 has been extended into 2020. The Corporation should be able to meet their 2020 capital commitment if the funding is received as explained in note 15.

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 September 30, 2019 and December 31, 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.

12. 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.

For the period ended September 30, 2019, the Corporation expensed $68,365 related to operating leases (2018 - $60,358).

Drilling commitments

The Corporation has an extension, subject to regulatory approval, to drill five (5) test wells under existing Cold Lake lease by November 30, 2020.

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 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 March 30, 2020, three (3) 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 or a farmout arrangement 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. The AER requested the work be completed by March 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 September 30, 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.

13. EXPENSES BY NATURE

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

	Three months ended September 30		Nine months ended September 30	
	2019 ($)	**2018 ($)**	**2019 ($)**	**2018 ($)**
Salaries and benefits	160,760	200,440	490,148	669,512
Office costs	55,086	90,926	191,198	252,188
Professional fees	49,524	55,288	229,850	203,002
Corporate and regulatory	6,710	2,677	24,545	20,974
	272,080	**349,331**	**935,741**	**1,145,676**

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

	Three months ended September 30		Nine months ended September 30	
	2019 ($)	**2018 ($)**	**2019 ($)**	**2018 ($)**
Interest on debentures and convertible note	41,386	32,138	112,799	78,957
Accretion of debentures	51,671	-	94,761	-
	93,057	**32,138**	**207,560**	**78,957**

14. 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 nine months ended September 30, 2019 related to the Kasten debenture (note 6) of $67,500 (2018 - $67,500) was recorded in the Statement of Loss and Comprehensive Loss. At September 30, 2019, $225,000 (December 31, 2018 - $157,500) remains unpaid and is included in trade and other payables.
- The convertible notes payable of $950,000 (note 7) are owing to corporations controlled by a director. Interest expense for the nine months ended September 30, 2019 was $45,929 and is recorded in the Statement of Loss and Comprehensive Loss. At September 30, 2019, interest payable of $45,929 is included in trade and other payables.
- In 2018 and 2017, the Corporation acquired $406,849 of drilling inventory at fair value from a supplier in which a director holds an interest. At September 30, 2019, $128,986 (December 31, 2018 - $128,986) is included in trade and other payables.

15. SUBSEQUENT EVENT

The Corporation has 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") will provide funding to allow the Corporation to further develop its interests in the Cold Lake and Wabasca areas of Alberta (the "Proposed Funding Transaction"). Pursuant to the term sheet, the Proposed Funding Transaction will proceed as follows:

(a) a limited partnership (the "Limited Partnership") will be formed as an Alberta limited partnership;
(b) The Corporation will assign all of its petroleum and natural gas interests (the "Assets") to the Limited Partnership in exchange for 99% of the units of the Limited Partnership (the "LP Units");
(c) The Corporation will enter into an operating agreement with the Limited Partnership to provide operating services with respect to the Assets;
(d) a new Alberta corporation will be formed to act as general partner for the Limited Partnership (the "General Partner") which will manage the business and affairs of the Limited Partnership. The General Partner will be jointly owned by The Corporation and the Funder, and a unanimous shareholders agreement will be entered into;
(e) The Funder will lend to the Limited Partnership the principal sum of up to $28 million to be advanced in three separate tranches, subject to meeting applicable conditions precedent; (i) an $8 million first tranche to be advanced on the closing date of the Proposed Transaction; (ii) a $10 million second tranche to be advanced on or before the first anniversary of the first tranche; and (iii) a $10 million third tranche to be advanced on or before the second anniversary of the first tranche (each tranche being an "Advance"). The second and third Advances are to be made in the sole discretion of the Funder;
(f) Interest on the principal sum of the Advances is 5% per annum until maturity, subject to adjustment in certain events. The principal sum of the Advances will be secured by a convertible debenture granting a first priority security interest over all of the assets and property of the Limited Partnership (including the Assets) and will include both positive and negative covenants. The principal sum matures on the earlier of the second anniversary of the last Advance made by the Funder or one year after the Funder has advised the Corporation that it does not intend to exercise its conversion option. The Funder has the right at any time before the second anniversary of the second Advance to elect to convert the entire principal sum of all Advances, plus interest, into that number of LP Units that will give effect to the Funder owning an equal 50% of the issued and outstanding LP Units; and
(g) The Funder will subscribe for a minimum of $990,000 up to a maximum of $1,990,000 of common shares of the Corporation pursuant to a private placement at a price to be set in the context of the market, and subject to the TSX Venture Exchange Inc.'s (the "Exchange") discount requirements.

Pursuant to the binding terms of the letter of intent, the Corporation has agreed to provide the Funder with exclusivity to complete the Proposed Funding Transaction for a 90-day period and to not solicit or encourage any proposals from any other person. In addition to requisite approvals, the Proposed Funding Transaction remains subject to completion of due diligence by the Funder. The Funder may recover up to $200,000 in transaction costs under certain circumstances including if the Corporation elects to terminate the letter of intent prior to January 31, 2020. The Corporation has also agreed to pay the Funder a $2 million break fee if an alternate proposal is accepted by the Corporation.

The Proposed Funding Transaction is expected to close in December, 2019 subject to certain conditions and regulatory approvals.

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
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Corporate Head Office

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Computershare Trust Corporation

Solicitors

Burstall LLP

Auditors

PricewaterhouseCoopers LLP