PetroFrontier

Annual Consolidated Financial Statements for the years ended December 31, 2022 and 2021

Independent Auditor's Report

To the Shareholders of PetroFrontier Corp.:

Opinion

We have audited the consolidated financial statements of PetroFrontier Corp. and its subsidiaries (the "Corporation"), which comprise the consolidated statements of financial position as at December 31, 2022 and December 31, 2021, and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits 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 are independent of the Corporation in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Corporation incurred negative cash flows from operations during the year ended December 31, 2022 and, as of that date, the Corporation had a working capital deficiency and accumulated deficit. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Corporation's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

The impact of crude oil reserves on oil producing (O&G) assets

Key Audit Matter Description

Refer to note 3 - Basis of Presentation, note 4 - Significant Accounting Policies and note 5 - Property and Equipment in the consolidated financial statements.

The impact of crude oil reserves on oil producing (O&G) assets

Key Audit Matter Description

Refer to note 3 - Basis of Presentation, note 4 - Significant Accounting Policies and note 5 - Property and Equipment in the consolidated financial statements.

The Corporation had $25.6 million of O&G assets as at December 31, 2022. Depletion and Depreciation (D&P) expense was $667,000 for the year then ended. The Corporation depletes O&G assets on a unit-of-production basis over the life of their proved plus probable (2P) reserves. Key assumptions developed by management to determine 2P reserves include forward price estimates, expected future rates of production, the amount and timing of future development expenditures, and engineering data. The Corporation's reserves are evaluated by an independent qualified reserve evaluator (management's expert).

We identified the impact of crude oil reserves on O&G assets as a key audit matter due to:

- The significant estimates and judgments used by management, including the use of management's expert, to estimate the 2P reserves,
- The significant auditor judgment required, and,
- The effort in performing procedures related to the key assumptions used.

Audit Response

We responded to this matter by performing procedures in relation to the impact of crude oil reserves on O&G assets. Our audit work in relation to this included, but was not restricted to, the following:

- Using the work of management’s experts to perform the procedures required to evaluate the reasonableness of the 2P reserves used to determine the depletion charges of the O&G assets.
  (i) To obtain comfort on management's expert, we evaluated the competence, capabilities, and objectivity of management’s expert.
  (ii) Procedures included gaining an understanding of the work performed by management’s expert, testing the data and assumptions used by management’s expert, and evaluating their findings.
- Evaluating the key assumptions used by management in determining 2P reserves and the reasonableness thereof. Procedures included:
  (i) Testing of forward price estimates by comparing to third party industry forecasts;
  (ii) Using the past and current performance of the Corporation to evaluate expected future rates of production and the timing and amount of future development expenditures; and,
  (iii) Assessing whether the estimates used were consistent with audit evidence gathered in other areas of our audit.
- Obtaining an understanding of the Corporation's processes and controls over 2P reserves and D&D.
- Recalculating quarterly D&D expense.

Other Information

Management is responsible for the other information. The other information comprises 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 audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If, based on the work we have performed on this other information, 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 International Financial Reporting Standards, 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 Corporation’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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation’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 Corporation’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 Corporation’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 Corporation 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.

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

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Calgary, Alberta

MNP LLP

May 1, 2023

Chartered Professional Accountants

PetroFrontier Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian Dollars)

As at		**December 31, 2022**		**December 31, 2021**
ASSETS				
Current				
Cash and cash equivalents	$	543,139	$	1,023,936
Trade and other receivables		753,930		455,690
Prepaid expenses and deposits		143,578		71,973
Total current assets		1,440,647		1,551,599
Property and equipment *(note 5)*		25,567,280		24,266,834
Total assets	**$**	**27,007,927**	**$**	**25,818,433**
LIABILITIES				
Current				
Trade and other payables	$	2,818,502	$	3,053,362
Debenture payable *(note 7)*		2,375,681		2,208,815
Convertible notes payable *(note 8)*		1,480,931		1,364,654
Loans *(note 9)*		5,889,527		3,176,057
Total current liabilities		12,564,641		9,802,888
Bank loan *(note 6)*		60,000		60,000
Decommissioning liabilities *(note 10)*		2,367,060		5,015,777
Total liabilities		14,991,701		14,878,665
SHAREHOLDERS' EQUITY				
Share capital *(note 11)*		135,383,515		135,383,515
Contributed surplus *(note 11)*		13,162,240		12,664,688
Accumulated other comprehensive loss		(5,269,883)		(5,269,883)
Deficit		(131,259,646)		(131,838,552)
Total shareholders' equity		12,016,226		10,939,768
Total liabilities and shareholders' equity	**$**	**27,007,927**	**$**	**25,818,433**

See notes to the consolidated financial statements

Going concern *(note 2)*
Commitments and contingencies *(note 15)*
Subsequent events *(note 19)*

Approved by the Board of Directors:

Signed "Kelly Kimbley"	*Signed "Michael Hibberd"*
Kelly Kimbley	Michael Hibberd

PetroFrontier Corp.

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(Canadian Dollars)

Years ended		**December 31, 2022**		**December 31, 2021**
REVENUE				
Petroleum sales	**$**	**7,516,486**	$	3,085,698
Royalties		**(688,627)**		(259,493)
		6,827,859		2,826,205
EXPENSES				
Production operating costs		**5,151,638**		2,557,627
General and administrative *(note 16)*		**1,358,896**		990,089
Depletion and depreciation *(note 5)*		**676,592**		407,813
Accretion on decommissioning liabilities *(note 10)*		**114,393**		67,408
Share-based compensation *(note 11)*		**497,552**		577,169
		7,799,071		4,600,106
Loss before other income (expense)		**(971,212)**		(1,773,901)
Other income (expense)				
Other income *(note 10)*		**2,474,253**		355,664
Finance expense *(note 16)*		**(924,135)**		(852,558)
		1,550,118		(496,894)
INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**$**	**578,906**	**$**	(2,270,795)
Income (loss) per share *(note 11)*				
Basic	**$**	**0.00**	**$**	(0.01)
Diluted		**0.00**		(0.01)

See notes to the consolidated financial statements

PetroFrontier Corp.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Canadian Dollars)

(Canadian $)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance, December 31, 2020	**134,110,046**	**12,087,519**	**(5,269,883)**	**(129,567,757)**	**11,359,925**
Loss and comprehensive loss	-	-	-	(2,270,795)	(2,270,795)
Share-based compensation *(note 11)*	-	577,169	-	-	577,169
Issued as structuring fee *(note 11)*	400,000	-	-	-	400,000
Issued for cash *(note 11)*	373,469	-	-	-	373,469
Issued on settlement of debt *(note 7)*	500,000	-	-	-	500,000
Balance, December 31, 2021	**135,383,515**	**12,664,688**	**(5,269,883)**	**(131,838,552)**	**10,939,768**
Income and comprehensive income	-	-	-	578,906	578,906
Share-based compensation *(note 11)*	-	497,552	-	-	497,552
Balance, December 31, 2022	**135,383,515**	**13,162,240**	**(5,269,883)**	**(131,259,646)**	**12,016,226**

See notes to the consolidated financial statements

PetroFrontier Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Canadian dollars)

Years ended		**December 31, 2022**		**December 31, 2021**
Cash provided by (used in)				
OPERATING				
Net income (loss)	$	**578,906**	$	(2,270,795)
Items not affecting cash:				
Depletion and depreciation *(note 5)*		**676,592**		407,813
Accretion on decommissioning liabilities *(note 9)*		**114,392**		67,408
Share-based compensation *(note 11)*		**497,552**		577,169
Interest on debenture, loans and convertible note payable *(note 7,8,9)*		**731,094**		381,374
Extension fees for debenture payable and convertible note payable *(note 7,8)*		**58,128**		69,841
Convertible debt, loans and debenture accretion *(note 7,8,9)*		**134,913**		401,343
Government grant income *(note 10)*		**(2,463,957)**		(352,054)
Change in non-cash working capital *(note 12)*		**(496,073)**		1,055,320
Cash flow (used in) provided by operating activities		**(168,453)**		337,419
INVESTING				
Expenditures on property and equipment *(note 5, 12)*		**(2,276,191)**		(2,667,727)
Expenditures on exploration and evaluation assets *(note 15)*		**-**		(182,366)
Changes in working capital related to investing activities *(note 12)*		**(108,631)**		-
Cash flow used in investing activities		**(2,384,822)**		(2,850,093)
FINANCING				
Proceeds from issuance of share capital *(note 10)*		**-**		373,469
Proceeds from loan #1 *(note 9)*		**2,350,000**		
Proceeds of convertible note payable *(note 8)*		**-**		3,150,000
Repayment of loan #2, including interest *(note 9)*		**(277,522)**		-
Cash flow provided by financing activities		**2,072,478**		3,523,469
Increase (decrease) in cash and cash equivalents		**(480,797)**		1,010,795
Cash and cash equivalents, beginning of year		**1,023,936**		13,141
Cash and cash equivalents, end of year	**$**	**543,139**	$	1,023,936

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 700, 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 years ended December 31, 2022 and December 31, 2021 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 consolidated 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. During the year ended December 31, 2022, the Corporation generated a net income of $578,906 (2021 - $2,270,795 loss) and had negative cash flows from operations of $169,085 (2021 – $337,419 positive) and, as at that date had a working capital deficiency of $11,123,994 (2021 - $8,251,289) and an accumulated deficit of $131,259,646 (2021 - $131,838,552). 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.

There can be no assurance that the Corporation will become profitable or be able to repay their financial obligations. These consolidated 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 consolidated 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 consolidated financial statements have been prepared in accordance with 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 January 1, 2022. On April 30, 2023, the Board of Directors approved these consolidated financial statements for issue.

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.

3. BASIS OF PRESENTATION *(CONTINUED)*

C) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. The functional currency of the Corporation's wholly owned subsidiaries is the Australia dollar.

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, revenue and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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

Reserve estimates

Petroleum and natural gas assets are depleted on a unit-of-production basis at a rate calculated by reference to proved and probable reserves determined in accordance with National Instrument 51-101, Standards of disclosure for Oil and Gas Activities ("NI 51-101") and incorporating the estimated future cost of developing and extracting those reserves. Proved and probable reserves are estimated using independent reservoir engineering reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Reserves estimates, although not reported as part of the Corporation's financial statements, can have a significant effect on net income (loss), assets and liabilities as a result of their impact on depreciation and depletion, decommissioning liabilities, deferred taxes and asset impairments.

Independent reservoir engineers perform evaluations of the Corporation's oil and gas reserves on an annual basis. The estimation of reserves is an inherently complex process requiring significant judgment. Estimates of economically recoverable oil and natural gas reserves are based upon a number of variables and assumptions such as geoscientific interpretation, production forecast, commodity prices and costs and related future cash flows, all of which may vary considerably from actual results. These estimates are expected to be revised upward or downward over time, as additional information such as reservoir performance becomes available or as economic conditions change.

Exploration and evaluation

The accounting for exploration and evaluation requires management to make certain estimates and assumptions as to future events and circumstances as to whether economic quantities of reserves have been found.

3. BASIS OF PRESENTATION *(CONTINUED)*

Impairment indicators and discount rate

For purposes of impairment testing, petroleum and natural gas assets are grouped into 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 Corporation has identified one CGU (Cold Lake/Wabasca).

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, but not limited to, changes in (a) commodity prices, (b) reserve volumes and (c) discount rates.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

Provision for doubtful accounts

The Corporation's trade and other receivables are typically short-term in nature and the Corporation recognizes an amount equal to the lifetime expected credit losses ("ECL") on receivables for which there has been a significant increase in credit risk since initial recognition. The Corporation measures loss allowances based on historical experience and including forecasted economic conditions. The amount of ECLs is sensitive to changes in circumstances of forecast economic conditions.

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.

3. BASIS OF PRESENTATION *(CONTINUED)*

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

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.

Going concern

The assessment of the Corporation’s ability to execute its strategy by funding future working capital involves judgement. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstance. There is a material uncertainty regarding the Corporation’s ability to continue as a going concern. The Corporation’s principal source of cash is from private placements and related party debt. The Corporation is dependent on raising funds in order to have sufficient capital to fund all aspects of future operations.

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 consolidated statement of loss and comprehensive 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(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 properties 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Values of oil and gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an 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.

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 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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'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.

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 risk-free rate. This has been treated as a change in estimate under – IAS 8 – *Change in Accounting Estimates.* 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 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 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 expensed if greater than the liability.

j) Taxes

Income tax expense comprises current and deferred tax. Tax expense is recognized in net loss 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 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 tax assets or liabilities. Deferred 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 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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. The Corporation'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.

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.

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. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

n) Financial instruments

Financial instruments are comprised of cash and cash equivalents, trade and other receivables, deposits, bank loan, trade and other payables, loans, convertible notes payable and debenture payable. 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

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.

The Corporation has recorded all their financial assets at amortized cost. 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 income (loss) 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 income (loss). 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of financial assets

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 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, bank loan, loans, convertible notes payable and debenture payable.

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 income 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

The Corporation 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 Corporation 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 Corporation. Assets and liabilities arising from a lease are initially measured on a present value basis. These payments are discounted using the Corporation's incremental borrowing rate when the rate implicit in the lease is not readily available. The Corporation 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 Corporation will exercise a purchase, extension or termination option that is within the control of the Corporation.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 Loss 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 Loss 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 Corporation will re-measure the lease liability using the Corporation’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.

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 Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases.

p) Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all conditions with the grant are met. Grants related to assets are recorded as a reduction to the asset’s carrying value and are depreciated over the useful life of the asset. Claims under such government grant programs related to income are recorded as a deduction of the related expense.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

q) Changes in accounting policies and new pronouncements

Future accounting standards and pronouncements

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

The amendments to IAS1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date.

These amendments are effective for reporting periods beginning on or after January 1, 2023.

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

		Oil & Gas Properties		Office Equipment		Total
Cost						
Balance, December 31, 2020	$	23,528,542	$	6,377	$	23,534,919
Revisions – decommissioning liabilities *(note 10)*		(410,696)		-		(410,696)
Transfer from E&E (note 15)		1,618,109		-		1,618,109
Additions		2,504,247		2,770		2,507,017
Balance, December 31, 2021	$	27,240,202	$	9,147	$	27,249,349
Additions		2,259,209		16,982		2,276,191
Revisions – decommissioning liabilities *(note 10)*		(299,153)		-		(299,153)
Balance, December 31, 2022	**$**	**29,200,258**	**$**	**26,129**	**$**	**29,226,387**
Accumulated depletion						
Balance, December 31, 2020	$	(2,568,325)	$	(6,377)	$	(2,574,702)
Depletion		(407,051)		(762)		(407,813)
Balance, December 31, 2021	$	(2,975,376)	$	(7,139)	$	(2,982,515)
Depletion		(672,740)		(3,852)		(676,592)
Balance, December 31, 2022	**$**	**(3,648,116)**	**$**	**(10,991)**	**$**	**(3,659,107)**
Net book value, December 31, 2021	$	24,264,826	$	2,008	$	24,266,834
Net book value, December 31, 2022	**$**	**25,552,142**	**$**	**15,138**	**$**	**25,567,280**

At December 31, 2022, future development costs of $21,016,000 (2021 - $47,169,000) associated with proved and probable reserves are included in costs subject to depletion.

The Corporation determined there were no indicators of impairment as at December 31, 2022 or December 31, 2021 and therefore no test of impairment was performed.

6. BANK LOAN

In 2020, the Corporation received a bank loan of $60,000 that is guaranteed by the Canadian Government under the Canada Emergency Business Account program in response to the Covid-19 pandemic. The bank loan is interest-free and 25% of the initial tranche of $40,000 and 50% of the second tranche of $20,000 were eligible for loan forgiveness if fully repaid on or before December 31, 2022. No principal payments were required until December 31, 2022. During the year ended December 31, 2022, the loan repayment date was extended to December 31, 2023.

If the bank loan is not repaid by December 31, 2023, the bank loan may be converted into a two-year term loan at an interest rate of 5% per annum payable monthly with no principal payments until December 31, 2025.

The amount initially attributed to the debt should equal the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument. The difference between the cash flows discounted using a market rate of interest and the cash flows discounted using the coupon rate would be accreted to the consolidated statements of loss and comprehensive loss over the term of the debt. This non-interest bearing bank loan was compared to a similar loan based on a market rate of interest and it was determined that the principal amounts were not materially different under either scenario.

7. DEBENTURE PAYABLE

		December 31, 2022		**December 31, 2021**
Balance, beginning of year	$	**2,208,815**	$	2,404,846
Settlement in exchange for common shares *(note 11)*		-		(500,000)
Accretion after extinguishment		**6,866**		103,969
Accrued interest payable		**120,000**		150,000
Extension fee payable		**40,000**		50,000
Balance, end of year – current	**$**	**2,375,681**	**$**	2,208,815

On July 21, 2016, the Corporation had issued a 3% secured convertible debenture in the principal amount of $3,000,000 to Kasten. 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 cancelled the conversion feature contained in the original debenture issued in 2016 (“Original Extending Agreement”).

On remeasurement, the liability component of the debenture was recognized at its fair value based on a market interest 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.

7. DEBENTURE PAYABLE *(CONTINUED)*

Effective June 30, 2020, the Corporation entered into an "Amended Extending Agreement" where the maturity date of the debenture was extended for two years to August 31, 2022. The amendments included an extension fee to be payable at the maturity date equal to two percent (2%) of the principal amount outstanding, per year, a revision in the interest rate to 8% per annum, and an option to convert the principal amount of the debenture, extension fee and outstanding interest under the debenture into common shares of the Corporation at a conversion price of (i) $0.05 between June 30, 2020 and June 30, 2021; and (ii) $0.10 between July 1, 2021 and the maturity date.

The amount outstanding under the debenture was partially settled on September 24, 2020 by one million dollars ($1,000,000) by issuing 25,000,000 common shares at a price of $0.04 per share. During the year ended December 31, 2021, and pursuant to the conversion feature of the debenture, $500,000 of the resulting amount due under the debenture was converted into shares by issuing 10,000,000 common shares at $0.05.

As the terms and cash flows of the Amended Extending Agreement to the Original Extending Agreement was substantially different from the terms of the Original Extending Agreement, the amendment was considered to be a debt extinguishment. As a result of remeasurement, the liability component of the debenture was recognized at its fair value based on a market interest rate of 12.96%, with the residual of $53,591 being recorded as equity. Subsequent to June 30, 2020, the debenture is carried at amortized cost using the effective interest rate method.

The debenture expired on August 31, 2022. Subsequent to the year ended December 31, 2022, the debenture was amended and extended (note 19). From August 31, 2022, the date of expiry to year-end, interest was accrued at a rate of 8% per annum.

8. CONVERTIBLE NOTE PAYABLE

	December 31, 2022		December 31, 2021	
Balance, beginning of year	**$**	**1,364,654**	**$**	**1,242,122**
Accretion		10,224		15,195
Interest		87,925		87,496
Extension fee		18,128		19,841
Balance, end of year – current	**$**	**1,480,931**	**$**	**1,364,654**

Convertible Note

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 has the option to convert the advances under the credit facility into common shares of the Corporation. 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.

8. CONVERTIBLE NOTE PAYABLE *(CONTINUED)*

On June 30, 2020, the Corporation entered into an amending agreement with the Lender to extend the convertible note payable until August 31, 2022 and revise the conversion price to (i) $0.05 for 12 months after the exchange feature; and, (ii) $0.10 for the remaining term until maturity. In addition, an annual extension fee of 2% of the amount outstanding under the convertible note will be payable to the Lender. The terms and future cashflows under the amended agreement to the initial convertible note was not substantially different from the terms of the existing convertible note, therefore the amendment was considered to be a debt modification.

As a result, a loss on debt modification of $31,661 was recorded for the difference between the carrying value of the convertible note at the date of the amendment and the fair value of the cashflows under the amended terms. Subsequent to June 30, 2020, the convertible note is carried at amortized cost using the effective interest rate method.

The convertible note expired on August 31, 2022. Subsequent to the year ended December 31, 2022, the note was amended and extended (note 19). From August 31, 2022, the date of expiry to year-end, interest was accrued at a rate of 8% per annum.

9. LOANS

		Loan #1		Loan #2		Total
Balance, December 30, 2020	**$**	**-**	**$**	**-**	**$**	**-**
Advances in the year		1,150,000		2,000,000		3,150,000
Accretion of debt issuance expense		-		282,179		2821,79
Debt issuance costs		-		(400,000)		(400,000)
Interest		17,211		126,667		143,878
Balance, December 31, 2021	**$**	**1,167,211**	**$**	**2,008,846**	**$**	**3,176,057**
Advances in the year		2,350,000		-		2,350,000
Repayment, including interest		-		(277,522)		(277,522)
Accretion of debt issuance expense		-		117,823		117,823
Interest		371,502		151,667		523,169
Balance, December 31, 2022	**$**	**3,888,713**	**$**	**2,000,814**	**$**	**5,889,527**

Loan #1

During the year ended December 31, 2021, the Corporation was advanced $1,150,000. This amount was initially intended to be part of a financing announced on October 8, 2021 and was to be used to commence completion operations on certain wells that have already been drilled by the Corporation, but had yet been completed, together with workover operations on certain wells that are currently shut-in. The loan was subsequently combined under one loan, under the terms of one year at an interest rate of 12%. Interest expense of $371,502 (2021 - $17,211) has been expensed for the year.

Subsequent to the year ended December 31, 2022, this loan became part of a financing that is discussed in detail in Subsequent Events (note 19) as the first tranche of the loan expired on October 31, 2022.

9. LOANS *(CONTINUED)*

Loan #2

During the year ended December 31, 2021, the Corporation finalized a credit facility with a non-related corporation (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 advances were to be used solely for the drilling of four (4) wells. The principal and interest mature on the earlier of twelve months from the date of the last advance, being May 2021 and April 30, 2022.

The Corporation paid a structuring fee of $400,000 equal to 20% of the total amount of the credit facility which was paid by the issuance of 5,333,332 common shares of the Corporation at the closing price of the Corporation's common shares on the date of the acceptance of the credit facility being $0.075.

During the year ended December 31, 2022, $250,000 plus interest was repaid and the loan expired on April 30, 2022. Subsequent to the year ended December 31, 2022, the note was amended and extended (note 19). From April 30, 2022, the date of expiry to year-end, interest was accrued at a rate of 8% per annum.

10. DECOMMISSIONING LIABILITY

The total undiscounted amount of the estimated cash flows required to settle its decommissioning liabilities are approximately $2,575,119 (December 31, 2021 - $4,302,611) which will be settled over the operating lives of the underlying assets, estimated to occur primarily over the next two to eight years. Risk-free interest rates between 3.27% and 4.06% (2021 – 1.15% and 1.27%) and an inflation rate of 2% (2021 – 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 decommissioning liability at December 31, were as follows:

Decommissioning Liabilities		**2022**		**2021**
Balance, beginning of year	**$**	**5,015,777**	$	5,711,119
Revisions to previously recorded liabilities		**(299,153)**		(512,628)
Abandoned under SRP program		**(2,463,957)**		(352,054)
Additions		**-**		101,932
Accretion		**114,393**		67,408
Balance, end of year	**$**	**2,367,060**	**$**	5,015,777

Site Rehabilitation Program

In May 2020, the Government of Alberta announced the Site Rehabilitation Program ("SRP") whereby qualified contractors (the "Contractors") could apply for grants to assist with the abandonment and reclamation activities of upstream oil and gas wells, pipelines and associated facilities.

10. DECOMMISSIONING LIABILITY *(CONTINUED)*

The SRP will provide grant funding to successful Contractors in the oil field services sector who have entered into, and comply with, an oil field service contract with an oil and gas company, who has a qualified business. The grant payments are made directly to the Contractors.

Furthermore, the Corporation and its First Nation joint venture partner, Tri-Rez Energy Ltd., the wholly-owned energy company of Cold Lake First Nations, have identified up to 118 of the Corporation's wells that can be decommissioned and abandoned and 22 well sites that can be remediated and reclaimed under the SRP. The Cold Lake First Nations leases in which the Corporation has working interests are part of the SRP Period 6 in which $100 million in funding is available for applications received by March 31, 2022 for abandonment and reclamation activities on First Nations' lands and Metis settlements.

The Corporation and Tri-Rez Energy submitted applications for 118 wells and 22 well sites identified for abandonment, remediation and reclamation under SRP Period 6 with respect to which, $3,600,000 has been approved to date, of which 89 wells were ultimately approved and abandoned.

During the year ended December 31, 2022, $2,463,957 (2021 - $352,054) (net to the Corporation) of decommissioning liabilities were eliminated through the SRP program, which has been recorded within other income on the consolidated statements of loss and comprehensive loss.

11. 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

	Year ended December 31, 2022		**Year ended December 31, 2021**	
Common Shares	**Number of shares**	**Amount ($)**	**Number of shares**	**Amount ($)**
Balance, beginning of year	**233,685,112**	**135,383,515**	**213,372,197**	**134,110,046**
Issued for cash	-	-	4,979,583	373,469
Issued as payment of structuring fee *(Note 9)*	-	-	5,333,332	400,000
Issued in settlement of debenture *(note 7)*	-		10,000,000	500,000
Balance, end of year	**233,685,112**	**135,383,515**	**233,685,112**	**135,383,515**

Year ended December 31, 2022:

There was no change to share capital during the year ended December 31, 2022.

11. SHARE CAPITAL *(CONTINUED)*

Year ended December 31, 2021:

The Corporation issued 4,979,583 common shares at a price of $0.075 per common share as part of a private placement. Gross proceeds of $373,469 were used to fund development and additional working capital.

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 one-third on the date of grant, one-third on the first and 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.

On December 5, 2022, the Corporation issued 5,200,000 stock options to officers and directors with a fair value of $379,283.

On August 11, 2021, the Corporation issued 12,800,000 stock options to officers and directors with a fair value of $922,788.

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

	Year ended December 31, 2022			**Year ended December 31, 2021**		
	#	Weighted average exercise price		#	Weighted average exercise price	
Outstanding, beginning of year	17,800,000	$	0.068	14,400,000	$	0.120
Granted	5,200,000		0.080	12,800,000		0.075
Expired	-		-	(9,400,000)		-
Outstanding, end of year	**23,000,000**	**$**	**0.071**	**17,800,000**	**$**	**0.068**
Exercisable, at year end	**15,266,667**	**$**	**0.067**	**7,600,000**	**$**	**0.064**

The following table summarizes stock options outstanding and exercisable at December 31, 2022:

Options outstanding (#)	**Exercise price**		**Weighted average remaining contractual life (years)**	**Exercisable Options (#)**	**Expiry Date**
5,000,000	$	0.050	2.7	5,000,000	September 7, 2025
12,800,000	$	0.075	3.6	8,533,333	August 11, 2026
5,200,000	$	0.080	4.9	1,733,333	December 5, 2027
23,000,000	**$**	**0.071**	**3.7**	**15,266,667**	

11. SHARE CAPITAL *(CONTINUED)*

The fair value of the stock options issued have been estimated at the date of grant using the Black-Scholes option pricing model based on the following assumptions:

Date of grant	**December 5 2022**	**August 11, 2021**
Dividend yield	**-**	**-**
Expected volatility	**149%**	**145%**
Risk-free interest rate	**3.06%**	**1.09%**
Expected life	**5 years**	**5 years**
Forfeiture	**nil**	**nil**

During the year ended December 31, 2022, share-based compensation of $497,552 (2021 - $577,169) was recognized in the statements of loss and comprehensive loss.

d) Per common share amounts

Year ended December 31,	**2022**	**2021**
Weighted Average – Basic		
Weighted average number of common shares, beginning of year	233,685,112	213,372,197
Weighted average number of shares issued	-	9,485,447
Weighted average number of common shares, end of year	**233,685,112**	**222,857,644**

Diluted earnings per share was calculated as follows:

Weighted average number of shares (diluted)		
Weighted average number of shares (basic)	**233,685,112**	222,857,644
Effect of outstanding options	**5,029,178**	-
Weighted average number of common shares – diluted	**238,714,290**	222,857,644
Net income per share – diluted	**0.00**	0.01

The average market value of the Corporation’s shares for purposes of calculating the dilutive effect of stock options was based on the average share price for the year of $0.09. No options were excluded from the diluted weighted average number of common shares calculation for the year ended December 31, 2022.

As the Corporation had recorded a loss for the year ended December 31, 2021, no addition was 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.

e) Management of capital structure

The Corporation’s objective is to maintain an acceptable 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. The Corporation is not subject to externally imposed capital requirements.

12. SUPPLEMENTAL CASH FLOW INFORMATION

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

		2022		**2021**
Trade and other receivables	$	(298,240)	$	69,187
Prepaid expenses and deposits		(71,605)		(17,717)
Trade and other payables		(234,859)		843,140
Change in non-cash working capital	**$**	**(604,704)**	**$**	**894,610**
Changes in non-cash working capital has been allocated as follows:				
Operating activities	**$**	**(496,073)**	**$**	**1,055,320**
Investing activities		**(108,631)**		**(160,710)**
	$	**(604,704)**	**$**	**894,610**

13. 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, 2022		**Year ended December 31, 2021**
Net income (loss) before taxes	$	578,906	$	(2,270,795)
Statutory income tax rate		23.00%		23.00%
Expected expense (recovery)		133,148		(522,283)
Add (deduct):				
Non-deductible share-based compensation		114,437		132,749
Non-deductible expenses		2,641		1,724
Other		-		57,548
Impact of debt issue costs		12,092		(190,870)
Change in deferred tax benefits		(262,318)		521,132
Deferred income tax recovery	**$**	-	**$**	-

13. DEFERRED TAX *(CONTINUED)*

Details of the unrecognized deductible temporary differences are as follows:

	2022		**2021**	
	Australia	**Canada**	**Australia**	**Canada**
Non-capital loss	50,407,596	15,552,500	50,407,596	$ 16,602,928
Property and equipment	-	817,878	-	434,833
Debt issuance costs	-	385,819	-	380,264
Decommissioning liabilities	-	2,367,060	-	4,904,029
Convertible notes, loans and debenture payable	-	576,781	-	559,689
Unrecognized deductible temporary differences	**50,407,596**	**19,700,038**	**50,407,596**	**22,881,743**

The Corporation has non-capital losses as at December 31, 2022 and 2021 of approximately AUD$49.3 million in Australia which have no expiry and $15.5 million (2021 - $16.6 million) in Canada which expire between 2030 and 2041. 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.

14. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The Corporation's financial instruments recognized in the consolidated statement of financial position consist of cash and cash equivalents, trade and other receivables, deposits, bank loan, trade and other payables, loans, convertible note payable and debenture payable. The fair value of these financial instruments approximate 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.

14. FINANCIAL INSTRUMENTS *(CONTINUED)*

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, 2022 and 2021, the Corporation's trade accounts receivable were all current. There is no material provision expected on the outstanding receivables as at December 31, 2022 and 2021.

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 Corporation'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 Corporation has no forward exchange rate contracts in place as at December 31, 2022 and 2021. The sensitivity of a 10% change in foreign exchange rates would have an immaterial impact on the consolidated statements of loss and comprehensive loss.

Interest rate risk

At December 31, 2022 and 2021, 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 consolidated statement of financial position are limited to bank loan, trade and other payables, loans, convertible note payable and debenture payable, most of which are current in nature. As at December 31, 2022, the Corporation is in compliance with its covenants (2021 – in compliance)

With a working capital deficiency of $11,123,944 at December 31, 2022 (2021 – $8,251,289), the Corporation will require increased production from its petroleum properties and/or the continued support of its debt holders and additional financing in order to fund its existing financial liabilities and ongoing operating and general administrative expenses. With the restructured and extended debt arranged subsequent to year end, the working capital deficiency will improve significantly as the debenture, convertible note and loans will be classified as long-term debt. See Subsequent Events *(note 19)*.

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.

14. FINANCIAL INSTRUMENTS *(CONTINUED)*

The following are the contractual maturities of financial liabilities including expected interest and extension fee payments at December 31, 2022 and 2021:

2022	**Contractual cash flows**	**Less than one year**	**1-3 years**	**Greater than 3 years**
Bank loan	$ 60,000	$ -	$ 60,000	$ -
Trade and other payables	2,818,502	2,818,502	-	-
Convertible note payable	1,480,931	1,490,931	-	-
Debenture payable	2,375,681	2,375,681	-	-
Loans payable	5,889,527	5,889,527	-	-
	$ 12,624,641	**$ 12,564,641**	$ 60,000	$ -

2021	**Contractual cash flows**	**Less than one year**	**1-3 years**	**Greater than 3 years**
Bank loan	$ 60,000	$ -	$ 60,000	$ -
Trade and other payables	3,053,364	3,053,364	-	-
Convertible note payable	1,364,654	1,364,654	-	-
Debenture payable	2,208,815	2,208,815	-	-
Loans payable	3,167,057	3,167,057	-	-
	$ 9,853,890	**$ 9,793,890**	$ 60,000	$ -

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. The current bank loan is interest free until December 31, 2023. Therefore, 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.

15. COMMITMENTS AND CONTINGENCIES

Office lease

The Corporation had an office rental arrangement that required monthly payments of $8,000 to May 31, 2022 terminable by the landlord or the Corporation upon 60 days written notice. In March 2022, the Corporation extended the arrangement to December 31, 2022. As the term of the lease is less than 12 months the payments have been expensed.

During the year ended December 31, 2022, the Corporation expensed $66,925, net of recoveries, relating to operating leases (2021 - $68,005).

The Corporation has entered into a new office rental arrangement for a three-year fixed term commencing January 1, 2023 that requires gross monthly payments of $10,812.

15. COMMITMENTS AND CONTINGENCIES *(CONTINUED)*

Drilling commitments

The Corporation obtained an extension to drill five earning wells at English Bay under an existing Cold Lake lease (the "English Bay Lease") by November 30, 2023. This drilling program is budgeted to cost approximately $3,200,000.

As set out under the Bigstone Development Agreement discussed below, the Corporation was required to spud five (5) test wells and complete, cap, plug or abandon the drilled wells. These wells were drilled by the respective expiry dates.

To meet its earning well terms, further debt and/or equity financing will be required, otherwise the English Bay Lease may not be continued beyond the November 20, 2023 extended primary term.

Decommissioning obligations

Pursuant to the Inactive Well Compliance 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 and the Corporation is anticipating financial assistance for the reclamation work under the Site Rehabilitation Program as discussed in further detail in Decommissioning Liabilities *(note 10)*. The Corporation had estimated the reclamation work for these 22 wells would cost approximately $330,000 and that amount was previously included in the current portion of decommissioning liabilities on the consolidated statements of financial position at December 31, 2020.

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 – E&E Assets

On May 9, 2018, the Corporation entered into an agreement (the "Bigstone Development Agreement") with Bigstone Oil & Gas Ltd., the wholly owned energy Corporation of the Bigstone Cree Nation, for consideration of $250,000. The Bigstone Development 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 Bigstone Development Agreement, the Corporation, as operator, has the right to earn a 90% before payout working interest and 50% after payout working interest in the five earning wells drilled in the first quarter of 2021 and a 50% working interest in the balance of the Lease.

15. COMMITMENTS AND CONTINGENCIES *(CONTINUED)*

The Corporation commenced developing the property by drilling one earning well in 2020, constructing a new 2.2 km road and multi-well drilling pad from which up to 8 wells can be drilled. Four (4) additional wells were drilled off the multi-well pad in the first quarter of 2021, satisfying its earning terms under the Bigstone Development Agreement.

During the year end December 31, 2021, with the discovery of economic recoverable reserves the Corporation transferred approximately $1.6 million of E&E assets to property and equipment. In accordance with the Corporation's accounting policy, all costs were assessed for impairment at the date of transfer to property and equipment.

16. EXPENSES BY NATURE

The components of the general and administrative expenditures for the year ended December 31, are as follows:

		2022		2021
Salaries and benefits	$	747,526	$	656,910
Office costs		322,454		167,255
Professional fees		258,072		142,919
Corporate and regulatory		30,844		23,005
	$	**1,358,896**	**$**	**990,089**

In recognition of the impact of Covid-19, the Government of Canada provided financial assistance to Canadian companies through various programs. In 2022, the Corporation received the Canada Emergency Wage Subsidy ("CEWS") in the amount of $nil (2021 - $17,120) which reduced salaries and benefits expense, after which it no longer qualified for the subsidy.

In November 2020, the Canada Emergency Rent Subsidy replaced the CERCA program. In 2022, under this program, rent expense was reduced by the amount of the subsidies of $nil (2021 - $3,145).

The main components of the Corporation's finance expense for the year ended December 31, are as follows:

		2022		2021
Interest on debentures *(note 7)*	$	120,000	$	150,000
Interest on convertible note payable *(note 8)*		87,925		87,496
Interest on loans *(note 9)*		523,169		143,878
Accretion *(note 7, 8, 9)*		134,913		401,343
Extension fee on convertible note payable *(note 8)*		18,128		19,841
Extension fee on debenture payable *(note 7)*		40,000		50,000
	$	**924,135**	**$**	**852,558**

17. COMPENSATION OF KEY MANAGEMENT PERSONNEL

Key management personnel compensation, including directors for the year ended December 31 is as follows:

		2022		2021
Salaries, directors' fees and other benefits	$	580,082	$	503,332
Share-based compensation		373,076		428,198
	$	**953,158**	**$**	**931,530**

18. RELATED PARTIES

Until February 28, 2021, the Corporation was related to Kasten Energy Inc. ("Kasten") when a director of the Corporation was also a director of Kasten. Pursuant to the Agreement of Purchase & Sale regarding the Kasten assets, Kasten acts as a bare trustee which includes forwarding monthly cash receipts from certain petroleum and natural gas sales to the Corporation. Other related party transactions are as follows:

- Interest expense on the Kasten debenture in 2021, while the Corporation was related to Kasten, was $26,667 and was recorded in the consolidated statement of loss and comprehensive loss.
- Convertible note payable #2 in the amount of $1,293,751 is owing to Kasten and was related by a common director until February 28, 2021. Interest expense in 2021, while the Corporation was related to Kasten, was $17,170 and was recorded in the consolidated statements of loss and comprehensive loss.
- The Corporation recovered rent and other office expenses from corporations related by a common director in 2022 of $14,136 (2021 - $12,834).

19. SUBSEQUENT EVENTS

Debt Restructure

Subsequent to the year ended December 31, 2022, the Corporation announced that it has arranged to extend a total $6,353,000 of its principal debt obligations for a period of two additional years. The debt obligations included a debenture that matured on August 31, 2022 and previous credit facilities which matured on August 31, 2022, April 30, 2022 and October 31, 2022. The agreements extend the repayment dates to March 31, 2025 and include that interest will be payable at a rate of 8% per annum and will be secured by general security agreements. The extension agreements provide that the Lenders will have the ability to convert the indebtedness for the first year at a price of $0.075 per common share, being the last closing price of Corporation's common shares, and at a price of $0.10 per common share for the second year, in accordance with the requirements of, and subject to approval by, the TSX Venture Exchange.

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

Jana Lillies
Chief Financial Officer

Ulrich Wirth
Vice-President Exploration

Omar El-Hajjar
Vice-President Operations

David Orr
Vice-President Business
Development

Corporate Head Office

700, 903 – 8th Avenue S.W.
Calgary, Alberta T2P 0P7

Trustee and Transfer Agent

Computershare Trust Corporation

Solicitors

Burstall Winger Zammit LLP

Auditors

MNP LLP

PetroFrontier

Management’s Discussion & Analysis

December 31, 2022

PetroFrontier Corp. (the "Corporation") is a public company, which is engaged in the business of exploring and developing petroleum and natural gas properties in western Canada. The Corporation has a fiscal year end of December 31, 2022.

This Management's Discussion & Analysis ("MD&A") is a review of how the Corporation performed during the period covered by the consolidated financial statements, and of the Corporation's financial condition and future prospects. The MD&A complements and supplements the consolidated financial statements of the Corporation and should be read in conjunction with the Corporation's consolidated financial statements and the related notes for the years ended December 31, 2022 and 2021. The financial statements have been prepared in Canadian dollars 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"), which are also generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada.

The Corporation's Board of Directors has reviewed and approved the consolidated financial statements and MD&A, both of which are effective April 30, 2023.

Forward-Looking Statements

Certain statements contained in this document, including Management's assessment of the Corporation's future plans and operations, may constitute forward-looking statements. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "plan" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Corporation, or industry results, to differ materially from those expressed or implied by such forward-looking statements. The Corporation believes the expectations reflected in these forward- looking statements are based on reasonable assumptions but no assurance can be given that these expectations will prove to be correct and the forward-looking statements included in this document should not be unduly relied upon. These statements speak only as of the date of this document.

Non-IFRS Measures

The financial data presented herein has been prepared in accordance with IFRS. The Corporation has also used certain measures of financial reporting that are commonly used as benchmarks within the oil and natural gas production industry in the following MD&A discussion. The measures are widely accepted measures of performance and value within the industry and are used by investors and analysts to compare and evaluate oil and natural gas exploration and producing entities. The most notable measure is "operating netback" which is a benchmark used in the crude oil and natural gas industry to measure the contribution of oil and natural gas sales calculated by deducting royalties and operating expenses and adding back lease rentals from non-producing properties from revenues on a dollar basis, divided by total production for the period on a boe or bbl basis. This measure is not defined under IFRS and should not be considered in isolation or as an alternative to conventional IFRS measures. This measure and its underlying calculations are not necessarily comparable or calculated in an identical manner to a similarly titled measure of another entity. When this measure is used, it is defined as "non IFRS" and should be given careful consideration by the reader.

Other terms used in this report are as follows:

bbl – barrel
bbls/d – barrels per day
CHOPS – Cold heavy oil produced with sand

WTI – West Texas Intermediate (a light oil reference price)
WCS – Western Canadian Select (a heavy oil reference price)
API – American Petroleum Institute

Corporate Overview

The Corporation is engaged in exploring for, and the production of, petroleum and natural gas in western Canada. The current core properties are Cold Lake and Wabasca, both conventional heavy oil projects.

Significant events which may impact the Corporation are described below in the section ***Subsequent Events***.

The Corporation has two wholly-owned inactive Australian subsidiaries, PetroFrontier (Australia) Pty Ltd and Texalta (Australia) Pty Ltd (collectively "PetroFrontier (Australia)"). When used herein, the term "Corporation" includes PetroFrontier (Australia) on a consolidated basis.

The Corporation operates from its offices located at 700, 903 – 8 Avenue SW, Calgary, Alberta, T2P 0P7.

The common shares of the Corporation trade on the TSX Venture Exchange under the trading symbol "PFC".

Overview of Consolidated Financial Results

The following selected financial data is derived from the audited consolidated financial statements of the Corporation and reference should be made to such financial statements for the years ended and as at December 31:

	2022	**2021**	**2020**
Income (loss) and comprehensive income (loss)	$ 578,906	$ (2,270,795)	$ (1,868,455)
Per common share (basic and diluted)	(0.00)	(0.01)	(0.01)
Working capital (deficiency)	(11,123,994)	(8,251,289)	(1,947,948)
Total assets	27,007,927	25,818,433	22,988,244
Total long-term liabilities	2,427,060	5,075,777	9,088,087
Shareholders' equity	$ 12,016,226	$ 10,939,768	$ 11,359,925

The Corporation's net loss is discussed further in the section *"Discussion of Operations"* and the working capital deficiency is discussed under *"Liquidity and Capital Resources"*.

Outlook and Current Environment

2022 was a considerably better year for PetroFrontier and the overall oil and gas industry. PetroFrontier saw its revenue double and realized a 64% year over year increase in production resulting from the completion and equipping of wells in early 2022 and certain targeted capital well workovers. Further, PetroFrontier significantly reduced its abandonment liabilities through its participation with the Cold Lake First Nations by abandoning (cutting and capping) 89 wellbores.

2023 has also started off well with our major lenders granting us a 2-year extension and significantly lowering the interest rate payable on our debt. Further, the Company is also pleased to announce, in conjunction with the issuance of these annual financial statements and MD&A, that PetroFrontier has engaged Mehran Joozdani, former Vice President, Heavy Oil Production and Exploitation for Husky Energy, as our new Chief Operating Officer. Mr. Joozdani has 25 years of oil and gas experience having started his career at Schlumberger and working his way up to the positions of Regional Operations Manager for both Canada and Central Asia before joining Husky. Mr. Joozdani will help lead PetroFrontier's transition from a delineation and reserves growth story to one of production growth utilizing multi-lateral horizontal drilling and enhanced oil recovery technology. Management's strategy, in conjunction with its capital raising efforts, is to commence this transition by kicking-off its initial multi-lateral well program after breakup and, subject to regulatory and stakeholder approvals, taking the initial steps to secure one or more small scaled enhanced oil recovery pilots. Both techniques have been used with great success to significantly improve production from, and recovery factors in, analogous Mannville formations in the Corporation's multi-zone core areas in Cold Lake and Wabasca.

Finally, the Board and management of PetroFrontier would like to thank its First Nation partners without whose support we would not have the opportunity to grow and develop such world class heavy oil plays.

Core properties

The Corporation has joint venture interests covering approximately 18 gross (16.5 net) sections arising under agreements with the wholly-owned energy companies of the Cold Lake First Nations ("CLFN"). As at December 31, 2022, 19 wells have been drilled under the joint ventures establishing multi-zone productivity and substantial reserves.

Likewise, PetroFrontier has a joint venture agreement with the wholly-owned energy company of the Bigstone Cree Nation ("BCN") dated May 7, 2018, that covers 1,024 gross (922 net) hectares in the Wabasca area of north-central Alberta. The Corporation's interests are located between CNRL's prolific Brintnell field currently producing approximately 50,000 bbls/d of heavy oil and Cenovus' proposed 10,000 bbls/d McMullen enhanced heavy oil recovery project.

Drilling Commitments

The Corporation obtained an extension to drill five earning wells at English Bay under an existing Cold Lake lease (the "English Bay Lease") to November 30, 2023. This drilling program is budgeted to cost approximately $3,200,000.

As set out under the Bigstone Development Agreement discussed below, the Corporation was required to spud five (5) test wells and complete, cap, plug or abandon the drilled wells. These wells were drilled by the respective expiry dates.

To meet its earning and continuance terms, further debt and/or equity financing will be required, otherwise leases may not be continued beyond their extended primary terms.

Site Rehabilitation Program

In May 2020, the Government of Alberta announced the Site Rehabilitation Program ("SRP") whereby qualified contractors (the "Contractors") could apply for grants to assist with the abandonment and reclamation activities of upstream oil and gas wells, pipelines and associated facilities.

The SRP will provide grant funding to successful Contractors in the oil field services sector who have entered into, and comply with, an oil field service contract with an oil and gas company, who has a qualified business. The grant payments are made directly to the Contractors.

Furthermore, the Corporation and its First Nation joint venture partner, Tri-Rez Energy Ltd., the wholly-owned energy company of Cold Lake First Nations, have identified up to 118 of the Corporation's wells that can be decommissioned and abandoned and 22 well sites that can be remediated and reclaimed under the SRP. The Cold Lake First Nations leases in which the Corporation has working interests are part of the SRP Period 6 in which $100 million in funding is available for applications received by March 31, 2022 for abandonment and reclamation activities on First Nations' lands and Metis settlements.

The Corporation and Tri-Rez Energy submitted applications for 118 wells and 22 well sites identified for abandonment, remediation and reclamation under SRP Period 6 with respect to which, $3,600,000 has been approved to date, of which 89 wells were ultimately approved and abandoned (cut and capped).

During the year ended December 31, 2022, $1,638,957 (net to the Corporation) of decommissioning liabilities were eliminated through the SRP program, which has been recorded within other income on the consolidated statements of loss and comprehensive loss.

Discussion of Operations

Revenue

2022	Annual	Q4	Q3	Q2	Q1
Revenue	7,516,486	1,403,557	$2,131,207	$2,165,951	$1,815,772
# bbls	89,428	23,451	25,972	19,653	20,352
Bbls/d	245	255	282	216	226
Realized revenue per bbl	$84.05	$59.85	$82.06	$110.21	$89.22
WCS -CAD$ per bbl	$97.11	$73.90	$92.25	$118.76	$103.18
Differential to WCS	13.5%	19.0%	11.0%	14.2%	13.5%

2021	Annual	Q4	Q3	Q2	Q1
Revenue	$3,085,698	$874,948	$902,745	$749,988	$558,017
# bbls	54,635	13,712	14,940	13,705	12,278
Bbls/d	150	149	162	151	136
Realized revenue per bbl	$56.48	$63.81	$60.42	$54.72	$45.45
WCS -CAD$ per bbl	$68.34	$76.14	$72.62	$67.13	$57.48
Differential to WCS	17.4%	16.2%	16.8%	18.5%	20.9%

Petroleum revenue for 2022 was $7,516,486 (2021- $3,085,698), an increase of $4,430,788 or 143.6%, with production averaging 245 bbls/d (2021 – 150 bbls/d). The Corporation realized an average price of $84.05 per bbl for 2022 (2021 - $56.48) while the WCS benchmark price for heavy oil averaged CAD$97.11 (2021 – CAD$68.34). The increase in revenue from 2021 to 2022 is attributable to an increase of 34,793 barrels of oil sold from a larger number of producing wells and from higher realized prices in 2022.

The realized sales price is lower than the WCS benchmark price as the Corporation's oil is of lower API gravity than that used in setting the WCS benchmark price.

Royalties

Royalty expense was $688,627 for 2022 (2021 – $259,593), being 9.2% and 8%, respectively of petroleum revenue for both years. Royalties are paid to Indian Oil and Gas Canada on behalf of the respective First Nation.

Production operating costs

Production operating costs were $5,151,638 ($57.61/boe) in 2022 compared to $2,557,627 ($46.81/boe) in 2021, an increase of $2,594,011 ($10.80/boe), or 101.4%. The operating cost increase in 2022 is primarily related to increased annual production. The increase in operating costs on a per boe basis is attributed to a return to regular operations after several COVID-19 cutbacks in 2021, initially higher production costs associated with initiating and optimizing production from a new field at Wabasca and to a general increase in field costs associated with the rising oil prices as well as to operational workover expenses that supported the increase to production.

General and administrative expense

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

	Three months ended December 31		Years ended December 31	
	2022 ($)	**2021 ($)**	**2022 ($)**	**2021 ($)**
Salaries and benefits	185,930	166,073	747,526	656,910
Office	78,606	98,238	322,454	167,255
Professional fees	72,849	51,506	258,072	142,919
Corporate and regulatory	3,837	3,282	30,844	23,005
	341,222	**319,099**	**1,358,896**	**990,089**

Overall, general and administrative expenses increased by $368,807 from $990,089 in 2021 to $1,358,896 in 2022.

In 2022, salaries and wages increased by $90,616 as compared to 2021. The Corporation received the Canada Emergency Wage Subsidy ("CEWS") which reduced salaries by $nil in 2022 (2021 – $17,120). Salaries and wages were reinstated to near pre-COVID levels during 2022.

Overall, office costs increased to $322,454 in 2022 as compared to $242,377 in 2021. This $155,199 increase over last year is largely due to increased insurance expense and to computer and software costs. Relief provided by the Canada Emergency Rent Subsidy totaled $nil in 2022 (2021 -$3,145).

Professional fees increased by $155,199 in 2022 over fees in 2021. This increase is attributable to increases in audit and reservoir engineering fees, and to the addition of consulting fees related to the process of securing financing and to establishing an enhanced oil recovery strategy.

Depletion and depreciation

Assets were depleted by $672,740 in 2022 (2021 - $407,051). Depletion relates to the resource assets and is based on the unit-of-production method based on proven and probable reserves. The depletion expense per bbl in 2022 was $7.57 as compared to $7.46 in 2021.

Accretion on decommissioning liabilities

Accretion expense was $114,393 in 2022 (2021 - $67,408) and reflects the increase in the liability due to the passage of time. The accretion expense has decreased due to settlements from the SRP program (described below) and revisions to estimates of the liabilities.

Finance income and expense

		2022		**2021**
Interest on debentures		120,000		150,000
Interest on convertible note payable		87,925		87,496
Interest on loans		523,168		143,878
Accretion		134,913		401,343
Extension fee on convertible note payable		18,128		19,841
Extension fee on debenture payable		40,000		50,000
	$	**924,134**	**$**	**852,558**

Finance expense was $924,134 in 2022 as compared to $852,558 in 2021, an increase of $71,576. The increase in the expense in 2022 was impacted addition of an additional loan received in 2022 (described below under *Loans*).

Net income (loss)

The Corporation recorded a net income of $578,906 as compared to a loss of $2,270,795 in 2021. The increase in income reflects the government grant for the SRP program of $2,466,334 (recorded in Other income) netted against the increased share-based compensation and finance expenses.

Operating Netback

The following table details the Corporation's operating netback which is defined in a preceding section *"Non-IFRS Measures":*

The Corporation's operating netback increased marginally by $53,585 in Q4 2022 when compared to Q4 2021 despite the increase in production by 9,739 bbls or by 71%. This can be attributed to high field costs in the quarter.

Year Ended	**December 31, 2022**		**December 31, 2021**	
		Per boe		**Per boe**
Production (boe)	89,428		54,635	
Average daily production (boe/d)	245		150	
Petroleum and natural gas revenue	$7,516,486	$84.05	$3,085,698	$56.48
Royalties	$688,627	$7.70	$259,493	$4.75
Production operating costs	$5,151,638	$57.61	$2,362,627	$43.24
Less: non-producing lease costs	(270,810)		(292,298)	
Operational netback	$1,405,411	$21.77	$755,876	13.84

The Corporation's netback was $649,535 higher in 2022 as compared to 2021. The increase is mainly related to an increase realized price per boe of $22.76 and an increase to production volumes of 33.7% in 2022. Production costs were $14.37 higher per boe in 2022.

The petroleum revenue for the heavy oil produced at Cold Lake is based on the WCS Benchmark price.

Three Months ended	**December 31, 2022**		**December 31, 2021**	
		Per boe		**Per boe**
Production (boe)	23,451		13,712	
Average daily production (boe/d)	255		149	
Petroleum and natural gas revenue	$1,403,557	$59.85	$874,948	$63.81
Royalty expense	$127,597	$5.44	$67,363	$4.91
Production operating costs	$1,529,664	$65.23	$1,093,520	$79.75
Less: non-producing lease costs	(87,868)		(66,514)	
Operational netback	$(165,837)	$(7.07)	$(219,421)	$(16.00)

Details of quarterly pricing in 2022 and 2021 is as follows:

2022	**Q4**	**Q3**	**Q2**	**Q1**
WTI - $US/bbl	$82.65	$91.55	$108.41	$94.29
WCS Dollar Differential to WTI - US$/bbl	$28.22	$20.62	$15.41	$12.75
WCS % Differential	34.1%	22.5%	14.2%	13.5%

2021	Q4	Q3	Q2	Q1
WTI - $US/bbl	$77.19	$70.56	$66.12	$57.79
WCS Dollar Differential to WTI –US$/bbl	$16.75	$12.92	$11.44	$12.41
WCS % Differential	21.7%	18.3%	17.3%	21.5%

Changes to crude oil prices can have a significant impact on the bottom line. In this more favourable price environment, Management took steps to increase production in late 2021 by reactivating three (3) wells, and completing and equipping three (3) wells. These additional producing wells initially improved the netback given the effect of spreading fixed operating costs over a larger production base. In 2022, with continued high oil prices, the associated field costs also increased, ultimately reducing some the effect of the additional production.

Quarterly financial results

		Three months ended December 31, 2022		Three months ended December 31, 2021
Petroleum and natural gas revenue	$	1,403,557	$	874,948
Royalties		127,597		67,363
Net revenue		1,275,960		807,585
Expenses:				
Production operating costs		1,529,664		1,213,400
General & Administrative		341,222		319,096
Depletion and depreciation		170,453		86,632
Accretion		41,548		20,375
Share-based compensation		180,680		123,633
Finance costs		79,338		250,664
Interest and other revenue		(427,346)		(384,479)
Adjustments to government grant		(571,013)		-
Comprehensive loss	$	(68,586)	$	(821,736)

A significant factor in comparing revenue in Q4 2022 to Q4 2021 relates to the higher sales price in 2022. The realized price per boe dropped to $59.85 in 2022 compared to $63.81 in Q4 2021, but was offset by the increase of 9,739 barrels sold in Q4 2022 compared to Q4 2021.

Accretion was $41,548 in Q4 2022 as compared to $20,375 in Q4 2021 reflecting changes to the risk-free interest rates and to changes in estimates resulting from the SRP program.

The increase in share-based compensation expense relates to the options issued in late 2022.

The finance costs increased in Q4 2022 as compared to Q4 2021 as two additional loans were added during the year.

Financial Position Results

Cash

As at December 31, 2022, the Corporation had cash $543,139 as compared to cash of $1,023,936 as at December 31, 2021. The decrease in cash at year end reflects a dip in production and realized prices in November and December and also the need for further capital investment.

Trade and other receivables

The balance of trade and other receivables were $753,930 at December 31, 2022 as compared to $455,690 at December 31, 2022. The receivable balance was higher at December 31, 2022 as certain December sales were paid in early January 2023.

Prepaid Expenses and Deposits

Prepaid expenses and deposits at December 31, 2022 were $143,578 (December 31, 2021 - $71,973) and is primarily comprised of prepaid industry fees, insurance and rent.

Property and equipment

Capital expenditures during the year ended 2022 increased property and equipment by $2,248,489. These costs are a result of certain well workovers and due to the completion of the 3 wells that the Corporation completed and equipped 3 wells at the end of 2021.

Trade and other payables

Trade and other payables at December 31, 2022 were $2,818,503 as compared to $3,053,362 at December 31, 2021. The balance, which decreased slightly in 2022, is comprised primarily of the additional operating costs incurred in late 2022 as well as certain capital costs incurred at the beginning of 2022.

DEBT

Bank loan

In 2020, the Corporation received a bank loan of $60,000 that is guaranteed by the Canadian Government under the Canada Emergency Business Account program in response to the Covid-19 pandemic. The bank loan is interest-free and 25% of the initial tranche of $40,000 and 50% of the second tranche of $20,000 were eligible for loan forgiveness if fully repaid on or before December 31, 2022. No principal payments were required until December 31, 2022. During the year ended December 31, 2022, the loan repayment date was extended to December 31, 2023.

If the bank loan is not repaid by December 31, 2023, the bank loan may be converted into a two-year term loan at an interest rate of 5% per annum payable monthly with no principal payments until December 31, 2025.

Convertible note payable

	December 31, 2022	December 31, 2021
Balance, beginning of year	**$ 1,364,654**	**$ 1,242,122**
Accretion	10,224	15,195
Interest	87,925	87,496
Extension fee	18,128	19,841
Balance, end of year - current	**$ 1,480,931**	**$ 1,364,654**

Convertible Note

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.

On June 30, 2020, the Corporation entered into an amending agreement with Kasten to extend the convertible note payable until August 31, 2022 and revise the conversion price to (i) $0.05 for 12 months after the exchange feature; and, (ii) $0.10 for the remaining term until maturity. In addition, an annual extension fee of 2% of the amount outstanding under the convertible note will be payable to the Kasten. The terms and future cashflows under the amended agreement to the initial convertible note is not substantially different from the terms of the existing convertible note, therefore the amendment is considered to be a debt modification.

As a result, a loss on debt modification of $31,661 was recorded for the difference between the carrying value of the convertible note at the date of the amendment and the fair value of the cashflows under the amended terms. Subsequent to June 30, 2020, the convertible note is carried at amortized cost using the effective interest rate method.

The convertible note expired on August 31, 2022. Subsequent to the year ended December 31, 2022, the note was amended and extended (see subsequent events). From expiry to year-end, the note continued as a demand loan by written agreement and interest was accrued at a rate of 8% per annum.

Debenture

		December 31, 2022		**December 31, 2021**
Balance, beginning of year	$	**2,208,815**	$	2,404,846
Settlement in exchange for common shares *(note 11)*		**-**		(500,000)
Accretion after extinguishment		**6,866**		103,969
Accrued interest payable		**120,000**		150,000
Extension fee payable		**40,000**		50,000
Balance, end of year - current	**$**	**2,375,681**	**$**	2,208,815

On July 21, 2016, the Corporation had issued a 3% secured convertible debenture in the principal amount of $3,000,000 to Kasten. 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 cancelled the conversion feature contained in the original debenture issued in 2016 ("Original Extending Agreement").

On remeasurement, the liability component of the debenture was recognized at its fair value based on a market interest 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.

Effective June 30, 2020, the Corporation entered into an "Amended Extending Agreement" where the maturity date of the debenture was extended for two years to August 31, 2022. The amendments included an extension fee to be payable at the maturity date equal to two percent (2%) of the principal amount outstanding, per year, a revision in the interest rate to 8% per annum, and an option to convert the principal amount of the debenture, extension fee and outstanding interest under the debenture into common shares of the Corporation at a conversion price of (i) $0.05 between June 30, 2020 and June 30, 2021; and (ii) $0.10 between July 1, 2021 and the maturity date.

The amount outstanding under the debenture was partially settled on September 24, 2020 by one million dollars ($1,000,000) by issuing 25,000,000 common shares at a price of $0.04 per share. During the year ended December 31, 2021, and pursuant to the conversion feature of the debenture, $500,000 of the resulting amount due under the debenture was converted into shares by issuing 10,000,000 common shares at $0.05.

As the terms and cash flows of the Amended Extending Agreement to the Original Extending Agreement was substantially different from the terms of the Original Extending Agreement, the amendment was considered to be a debt extinguishment. As a result of remeasurement, the liability component of the debenture was recognized at its fair value based on a market interest rate of 12.96%, with the residual of $53,591 being recorded as equity. Subsequent to June 30, 2020, the debenture is carried at amortized cost using the effective interest rate method.

The debenture expired on August 31, 2022. Subsequent to the year ended December 31, 2022, the debenture was amended and extended. From expiry to year-end, interest was accrued at a rate of 8% per annum.

Loans

	Loan #1	Loan #2	Total
Balance, December 30, 2020	**$ -**	**$ -**	**$ -**
Advances in the year	1,150,000	2,000,000	3,150,000
Accretion of debt issuance expense	-	282,179	282,179
Debt issuance costs	-	(400,000)	(400,000)
Interest	17,211	126,667	143,878)
Balance, December 31, 2021	**$ 1,167,211**	**$ 2,008,846**	**$ 3,176,057**
Advances in the year	2,350,000	-	2,350,000
Repayment, including interest	-	(277,522)	(277,522)
Accretion of debt issuance expense	-	117,823	117,823
Interest	371,502	151,667	523,169
Balance, December 31, 2022	**$ 3,888,713**	**$ 2,000,814**	**$ 5,889,527**

Loan #1

During the year ended December 31, 2021, the Corporation was advanced $1,150,000. This amount was initially intended to be part of a financing announced on October 8, 2021 and was to be used to commence completion operations on certain wells that have already been drilled by the Corporation, but had yet been completed, together with workover operations on certain wells that are currently shut-in. The loan was subsequently combined under one loan, under the terms of one year at an interest rate of 12%. Interest expense of $371,502 has been expensed for the year.

Subsequent to the year ended December 31, 2022, this loan became part of a financing that is discussed in detail in Subsequent Events *(note 19)* as the first tranche of the loan expired on October 31, 2022.

Loan #2

During the year ended December 31, 2021, the Corporation finalized a credit facility with a non-related corporation (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 advances were to be used solely for the drilling of four (4) wells. The principal and interest mature on the earlier of twelve months from the date of the last advance, being May 2021 and April 30, 2022.

The Corporation paid a structuring fee of $400,000 equal to 20% of the total amount of the credit facility which was paid by the issuance of 5,333,332 common shares of the Corporation at the closing price of the Corporation's common shares on the date of the acceptance of the credit facility being $0.075.

During the year ended December 31, 2022, $250,000 plus interest was repaid and the loan expired on April 30, 2022. Subsequent to the year ended December 31, 2022, the note was amended and extended (see subsequent note 19). From expiry to year-end, interest was accrued at a rate of 8% per annum.

Decommissioning Liabilities

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 $5,469,125 (December 31, 2021 - $5,469,125) which will be settled over the operating lives of the underlying assets, estimated to occur primarily over the next ten years. Risk-free interest rates of 1.15% to 1.27% (2021 - credit adjusted interest rate of 1.15% to 1.27%) and an inflation rate of 2% (2020 – 2%) were used to calculate the decommissioning liability. Revisions to the decommissioning liabilities of $512,628 resulted from changes in estimates with an offsetting decrease to property and equipment. 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		**2022**		**2021**
Balance, beginning of year	**$**	**5,015,777**	$	5,711,119
Revisions to previously recorded liabilities		**(299,153)**		(512,628)
Abandoned under SRP program (see below)		**(2,463,957)**		(352,054)
Additions		**-**		101,932
Accretion		**114,393**		67,408
		2,367,060		5,015,777
Current portion (note 15)		**-**		-
Balance, end of year	**$**	**2,367,060**	**$**	5,015,777

Site Rehabilitation Program

In May 2020, the Government of Alberta announced the Site Rehabilitation Program ("SRP") whereby qualified contractors (the "Contractors") could apply for grants to assist with the abandonment and reclamation activities of upstream oil and gas wells, pipelines and associated facilities.

The SRP will provide grant funding to successful Contractors in the oil field services sector who have entered into, and comply with, an oil field service contract with an oil and gas company, who has a qualified business. The grant payments are made directly to the Contractors.

Furthermore, the Corporation and its First Nation joint venture partner, Tri-Rez Energy Ltd., the wholly-owned energy company of Cold Lake First Nations, have identified up to 118 of the Corporation's wells that can be decommissioned and abandoned and 22 well sites that can be remediated and reclaimed under the SRP. The Cold Lake First Nations leases in which the Corporation has working interests are part of the SRP Period 6 in which $100 million in funding is available for applications received by March 31, 2022 for abandonment and reclamation activities on First Nations' lands and Metis settlements.

The Corporation and Tri-Rez Energy submitted applications for 118 wells and 22 well sites identified for abandonment, remediation and reclamation under SRP Period 6 with respect to which, $3,600,000 has been approved to date, of which 89 wells were ultimately approved and abandoned (cut and capped).

During the year ended December 31, 2022, $1,638,957 (net to the Corporation) of decommissioning liabilities were eliminated through the SRP program, which has been recorded within other income on the consolidated statements of loss and comprehensive loss.

Common share information

Issued – common shares

	Year Ended December 31, 2022		**Year Ended December 31, 2021**	
	Number of shares	**Amount ($)**	**Number of shares**	**Amount ($)**
Common Shares				
Balance, beginning of year	**233,685,112**	**135,383,515**	**213,372,197**	**134,110,046**
Issued for cash	-	-	4,979,583	373,469
Issued as payment of structuring fee	-	-	5,333,332	400,000
Issued in settlement of debt	-	-	10,000,000	500,000
Balance, end of year	**233,685,112**	**135,383,515**	**233,685,112**	**135,383,515**

There was no change to share capital in 2022.

Year ended December 31, 2021:

The Corporation issued 4,979,583 common shares at a price of $0.075 per common share as part of a private placement. Gross proceeds of $373,469 were used to fund development and additional working capital.

Payment of the $400,000 structuring fee for loan #2 was made by issuing 5,333,332 common shares.

At the date of this MD&A, there are 233,685,112 Common Shares outstanding.

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 one-third on the date of grant, one-third on the first and 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, 2022		**Year ended December 31, 2021**	
	#	Weighted average exercise price	#	Weighted average exercise price
Outstanding, beginning of year	17,800,000	$ 0.068	14,400,000	$ 0.120
Granted	5,200,000	0.080	12,800,000	0.075
Expired	-	-	(9,400,000)	-
Outstanding, end of year	**23,000,000**	**$ 0.071**	**17,800,000**	**$ 0.068**
Exercisable, at year end	**15,266,667**	**$ 0.067**	**7,600,000**	**$ 0.064**

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2022.

Options outstanding (#)	**Exercise price**	**Weighted average remaining contractual life (years)**	**Exercisable Options (#)**	**Expiry Date**
5,000,000	$ 0.050	2.7	5,000,000	September 7, 2025
12,800,000	$ 0.075	3.6	8,533,333	August 11, 2026
5,200,000	$ 0.080	4.9	1,733,333	December 5027
17,800,000	**$ 0.071**	**3.7**	**15,266,667**	

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2021.

Options outstanding (#)	**Exercise price**	**Weighted average remaining contractual life (years)**	**Exercisable Options (#)**	**Expiry Date**
5,000,000	$ 0.050	3.7	3,333,333	September 7, 2025
12,800,000	$ 0.075	4.6	4,266,667	August 11, 2026
17,800,000	**$ 0.066**	**4.3**	**7,600,000**	

The fair value of the stock options issued have been estimated at the date of grant using the Black-Scholes option pricing model based on the following assumptions:

Date of grant	**December 5 2022**	**August 11, 2021**
Dividend yield	**-**	**-**
Expected volatility	**149%**	**145%**
Risk-free interest rate	**3.06%**	**1.09%**
Expected life	**5 years**	**5 years**
Forfeiture	**nil**	**nil**

During the year ended December 31, 2022, share-based compensation of $497,553 (2021 - $577,169).

Liquidity and capital resources

As at December 31, 2022, the Corporation had cash of $543,139 (December 31, 2021 –$1,023,936) reflecting proceeds from loan #1 described above, despite higher realized prices on increased production.

In 2021 the Corporation received proceeds from 2 loans and completed a private placement for proceeds of $373,469.

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 farmout arrangements. There is no assurance that such initiatives may be successful.

The Corporation expects to generate funds from future operations in order to assist in funding general operations, however, the Corporation will require additional funds in order to fund the working capital deficiency and to meet the expenditures further described below under *Material Contracts, Commitments and Contingencies.*

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 or farmout arrangements on favorable terms. The Corporation had no defaults or breaches on its financial liabilities in 2021.

Subsequent events

Debt Restructure

Subsequent to the year ended December 31, 2022, the Corporation announced that it has arranged to extend a total $6,353,000 of its principal debt obligations for a period of two additional years. The debt obligations included demand loans related to a debenture that matured on August 31, 2022 and previous credit facilities which matured on August 31, 2022, April 30, 2022 and October 31, 2022. The agreements extend the repayment dates to March 31, 2025 and include that interest will be payable at a rate of 8% per annum and will be secured by general security agreements. The extension agreements provide that the Lenders will have the ability to convert the indebtedness for the first year at a price of $0.075 per common share, being the last closing price of Corporation's common shares, and at a price of $0.10 per common share for the second year, in accordance with the requirements of, and subject to approval by, the TSX Venture Exchange.

Material Contracts, Commitments and Contingencies

Office lease

The Corporation had an office rental arrangement that required monthly payments of $8,000 to May 31, 2022 terminable by the landlord or the Corporation upon 60 days written notice. In March 2022, the Corporation extended the arrangement to December 31, 2022. As the term of the lease is less than 12 months the payments have been expensed.

During the year ended December 31, 2022, the Corporation expensed $66,925, net of recoveries, relating to operating leases (2021 - $68,005).

The Corporation has entered into a new office rental arrangement for a three-year fixed term commencing January 1, 2023 that requires gross monthly payments of $10,812.

Drilling commitments

The Corporation obtained an extension to drill five earning wells at English Bay under an existing Cold Lake lease (the "English Bay Lease") by November 30, 2023. This drilling program is budgeted to cost approximately $3,200,000.

As set out under the Bigstone Development Agreement discussed below, the Corporation was required to spud five (5) test wells and complete, cap, plug or abandon the drilled wells. These wells were drilled by the respective expiry dates.

To meet its earning well terms, further debt and/or equity financing will be required, otherwise the English Bay Lease may not be continued beyond the November 20, 2023 extended primary term.

Decommissioning obligations

Pursuant to the Inactive Well Compliance 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 and the Corporation is anticipating financial assistance for the reclamation work under the Site Rehabilitation Program as discussed in further detail in Decommissioning Liabilities *(note 10)*. The Corporation had estimated the reclamation work for these 22 wells would cost approximately $330,000 and that amount was previously included in the current portion of decommissioning liabilities on the consolidated statements of financial position at December 31, 2020.

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 an agreement (the "Bigstone Development Agreement") with Bigstone Oil & Gas Ltd., the wholly owned energy Corporation of the Bigstone Cree Nation, for consideration of $250,000. The Bigstone Development 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 Bigstone Development Agreement, the Corporation, as operator, has the right to earn a 90% before payout working interest and 50% after payout working interest in the five earning wells drilled in the first quarter of 2021 and a 50% working interest in the balance of the Lease.

The Corporation commenced developing the property by drilling one earning well in 2020, constructing a new 2.2 km road and multi-well drilling pad from which up to 8 wells can be drilled. Four (4) additional wells were drilled off the multi-well pad in the first quarter of 2021, satisfying its earning terms under the Bigstone Development Agreement.

During the year end December 31, 2021, with the discovery of economic recoverable reserves the Corporation transferred approximately $1.6 million of E&E assets to property and equipment. In accordance with the Corporation's accounting policy, all costs were assessed for impairment at the date of transfer to property and equipment.

Financial Instruments and Other Instruments

The Corporation's financial instruments consist of cash, trade and other receivables, trade and other payables, convertible notes payable and the debenture. It is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments and that the fair value of these financial instruments approximates their carrying values, as applicable.

Interest rate risk

At December 31, 2022 and 2021, the Corporation had no outstanding floating interest rate debt and is not exposed to interest rate risk at this time.

Liquidity risk

Liquidity risk relates to the risk the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The financial liabilities on its statement of financial position are limited to trade and other payables, convertible note payable and the debenture, all of which are current in nature.

With a working capital deficiency of $11,423,994 at December 31, 2021 (2021 – $8,251,289), the Corporation will require increased production from its petroleum properties and/or the continued support of its debenture holder and additional financing in order to fund its existing financial liabilities and ongoing operating and general administrative expenses.

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 or farmout arrangements on favorable terms.

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. The current bank loan is interest free until December 31, 2022 and there was no bank debt as at December 31, 2019. Therefore, 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. The Corporation does not have any derivatives in place to manage price risk.

Summary of Quarterly Results (unaudited)

Fiscal Quarter Ended - $	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
Revenue	1,403,557	2,131,207	2,165,951	1,815,772
Net Income (loss)	(68,585)	118,117	483,991	45,385
Net income (loss) per share	(0.00)	0.00	0.00	0.00
Fiscal Quarter Ended - $	**December 31, 2021**	**September 30, 2021**	**June 30, 2021**	**March 31, 2021**
Revenue	874,948	902,745	749,988	558,017
Net loss	(841,188)	(617,728)	(314,749)	(281,880)
Net loss per share	(0.00)	0.00	0.00	0.00

In 2022, the Corporation's revenue benefited from higher realized oil prices and increased production. Certain operating workovers in the fourth quarter increased the operating costs that contributed to the higher net loss in that period. Increased production from additional wells and workovers contributed to the higher revenues in the first three quarters of 2022, while certain wells that were temporarily inactive during the fourth quarter impacted the revenue and resulting loss in Q4.

Related parties

Until February 28, 2021, the Corporation was related to Kasten Energy Inc. ("Kasten") when a director of the Corporation was also a director of Kasten. Pursuant to the Agreement of Purchase & Sale regarding the Kasten assets, Kasten acts as a bare trustee which includes forwarding monthly cash receipts from certain petroleum and natural gas sales to the Corporation. Other related party transactions are as follows:

- Interest expense on the Kasten debenture in 2021, while the Corporation was related to Kasten, was $26,667 and was recorded in the consolidated statement of loss and comprehensive loss.
- Convertible note payable #2 in the amount of $1,293,751 is owing to Kasten and was related by a common director until February 28, 2021. Interest expense in 2021, while the Corporation was related to Kasten, was $17,170 and was recorded in the consolidated statements of loss and comprehensive loss.
- The Corporation recovered rent and other office expenses from corporations related by a common director in 2022 of $14,136 (2021 - $12,834).

Off Balance Sheet Arrangements

The Corporation had no guarantees or off-balance sheet arrangements except for certain lease agreements that were entered into in the normal course of operations. All leases are treated as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the balance sheet as at December 31, 2022. The total future obligation from these operating leases is described above in the section "Material Contracts, Commitments and Contingencies".

Accounting Standards Adopted in 2021 and Future Amendments

Future accounting standards and pronouncements

Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments to IAS 37 specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

The amendments to IAS1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date.

These amendments are effective for reporting periods beginning on or after January 1, 2023.

Business Risks and Uncertainties

The Corporation's business is subject to risks inherent in oil and natural gas exploration and development operations. In addition, there are risks associated with the Corporation's current and future operations in the jurisdictions in which it operates. The Corporation has identified certain risks pertinent to its business including: exploration and reserve risks, drilling and operating risks, changes to regulatory requirements, costs and availability of materials and services, capital markets and the requirement for additional capital, loss of or changes to joint venture or related agreements, economic and sovereign risks, reliance on joint venture partners, market risk, volatility of future oil and natural gas prices and foreign currency risk. Management seeks to reduce such risks by employing professionals and utilizing consultants and contractors to conduct the business of the Corporation in strict compliance with corporate governance, operating, safety, health and environmental requirements and best practices.

Further, in this regard, management also places great emphasis on fostering and maintaining a strong working relationship with its partners, CLFN and its wholly-owned energy company, with respect to the on-going development of CLFN lands.

Limited Operating and Earnings History

The Corporation has no earnings history. The Corporation's future business plans may require significant expenditure, particularly capital expenditure, in the establishment of Canadian oil and gas operations. Any future profitability from the Corporation's business will be dependent upon the successful acquisition of new lands, and there can be no assurance that the Corporation will achieve profitability in the future.

Investment Risks

The timing and extent of revenues is variable and uncertain and accordingly the Corporation is unable to predict when, if at all, profitability will be achieved. An investment in the Common Shares is highly speculative and should only be made by persons who can afford a significant or total loss of their investment.

History of Losses

Historically the Corporation has incurred losses from operations. As at December 31, 2022, the Corporation had a cumulative deficit of $131,259,646. There can be no assurance that the Corporation will achieve profitability in the future. In addition, should the Corporation be unable to continue as a going concern, realization of assets and settlement of liabilities other than in the normal course of business may be at amounts significantly different from those in the financial statements.

Cash Flow Used in Operations

In 2022 the Corporation used cash from operations of $168,453 (2021 - $337,419). The Corporation generally has a history of negative cash flow from operations, that together with the Corporation's inability to generate positive operating cash inflow, could have a material adverse impact on its business, operations and prospects in the future. There is still uncertainty at this time what the long term effects of COVID–19 will be on future operations of the Corporation.

Competition

Oil and gas exploration is intensely competitive in all phases and involves a high degree of risk. The Corporation competes with numerous other participants in the search for, and the acquisition of, oil and natural gas properties. The Corporation's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Corporation. The Corporation's ability to add reserves in the future will depend not only on its ability to explore and develop properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery. Competition may also be presented by alternate fuel sources.

Operational Dependence

In the future, the Corporation may enter into operations in which it is not the operator or which may be dependent or effected by the activities or conduct of third parties. As such, the Corporation may have limited ability to exercise influence or control over the operation of such assets or their associated costs, which could adversely affect the Corporation's financial performance. Therefore, the Corporation's return on such operations will depend upon a number of factors that may be outside of the Corporation's control, including the timing and amount of capital expenditures, an operator's or other third party's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

Reliance on Key Personnel

The Corporation's success will depend in large measure on the performance of the Board and other key personnel. The loss of services of such individuals could have a material adverse effect on the Corporation. The Corporation does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations of the Corporation are likely to be of central importance. In addition, there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation.

Assessments of Value of Acquisitions

Acquisitions of oil and natural gas issuers and oil and natural gas assets are typically based on engineering and economic assessments made by independent engineers and the Corporation's own assessments. These assessments will include a series of assumptions regarding such factors as recoverability and marketability of oil and gas, future prices of oil and gas and operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the Corporation's control. In particular, the prices of, and markets for, oil and natural gas products may change from those anticipated at the time of making such assessment. In addition, all such assessments involve a measure of geological and engineering uncertainty which could result in lower than anticipated production and reserves. Initial assessments of acquisitions may be based on reports by a firm of independent engineers that are not the same as the firm that the Corporation may use for its year-end reserve evaluations. Because each of these firms may have different evaluation methods and approaches, these initial assessments may differ significantly from the assessments of the firm used by the Corporation. Any such instance may offset the return on and value of the Common Shares.

Estimate of Fair Market Value

There are numerous uncertainties inherent in an estimate of fair market value including many factors beyond the Corporation's control. The valuations herein represent estimates only. In general, estimates are based upon a number of variable factors and assumptions, such as engineering and geophysical information pertaining to hydrocarbon potential, current material contracts of the Corporation, production history of competitors on similar land positions, access to lands, availability, timing and amount of capital expenditures, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies, and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative and are only attempts to define the degree of speculation involved.

Insurance

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. However, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not be insurable in all circumstances or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any such uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Corporation's financial position, results of operations or prospects. The Corporation believes it is adequately insured for normal risks.

Corporate Matters

The Corporation does not anticipate the payment of any dividends on the Common Shares for the foreseeable future. Certain directors and officers of the Corporation are also directors and officers of other oil and natural gas companies involved in natural resource exploration and development, and conflicts of interest may arise between their duties as directors and officers of the Corporation and as directors and officers of such other companies. Such conflicts must be disclosed in accordance with and are subject to such other procedures and remedies as applicable under, the Alberta Business Corporations Act.

Title to Properties

Title to oil and natural gas interests is often not capable of conclusive determination without incurring substantial expense. Although title reviews will be done according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim of the Corporation. To the extent title defects do exist, it is possible the Corporation may lose all or a portion of its right, title, estate and interest in and to the properties to which the title relates.

Additional Funding Requirements

The Corporation will require additional financing from time to time in order to carry out oil and natural gas exploration and development activities. Failure to obtain such financing on a timely basis could cause the Corporation to have limited ability to expend the capital necessary to undertake or complete future exploration programs, forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. Moreover, future activities may require the Corporation to alter its capitalization significantly.

Dilution

The Corporation may make future acquisitions or enter into financing or other transactions involving the issuance of securities of the Corporation, which may be dilutive to existing shareholders.

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material.

Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and the potential for increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge.

Statutory provisions require petroleum tenement lands to be protected and rehabilitated to ensure that environmental damage is avoidable or minimal where authorized. These provisions may require approvals and consents to be obtained before certain lands may be accessed and explored. In addition, each state and territory government may impose a wide range of obligations on tenement holders to ensure that petroleum operations comply with various environmental standards and requirements.

No assurance can be given that environmental laws will not result in a curtailment of future production (if any) or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Corporation's financial condition, results of operations or prospects.

Changes in Legislation

Legislation and regulations continue to be introduced by government and government agencies concerning the security of industrial facilities, including oil and natural gas facilities. The Corporation's operations may be subject to such laws and regulations. Presently, it is not possible to accurately estimate the costs the Corporation could incur to comply with any such laws or regulations, but such expenditures could be substantial.

Income Taxes

The Corporation will file all required income tax returns and believes that it will be in full compliance with the provisions of the *Income Tax Act* (Canada) and all other applicable tax legislation. However, such returns are subject to reassessment by applicable taxation authorities. In the event of a successful reassessment of the Corporation, whether by re-characterization of exploration and development expenditures or otherwise, such reassessment may have an impact on current and future taxes payable.

Integrity of Disclosure

The Corporation's management maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable.

The Board is responsible for ensuring that management fulfills its responsibilities. The Audit Committee fulfills its role of ensuring the integrity of the reported information through its review of the audited consolidated financial statements. The Board approves the annual audited consolidated financial statements and MD&A on the recommendation of the Audit Committee.

The Corporation has approved a series of policy papers that include Code of Business Conduct and Ethics, Whistle Blower Policy and Procedures, Insider Trading and Reporting Guidelines, Disclosure Policy and Board Control System. Terms of References define Audit Committee and Compensation and Governance Committees. The Corporation has a defined Board Mandate.

Additional Information

Additional information on the Corporation can be accessed at www.sedar.com or from the Corporation's website at www.petrofrontier.com or by contacting the Corporation at PetroFrontier Corp., Suite 700, 903 - 8th Avenue S.W. Calgary, Alberta, Canada T2P 0P7.

Directors

Michael Hibberd
Chairman of the
Board of Directors
Calgary, Alberta

Kenneth L. DeWyn
Educator
Calgary, Alberta

Kelly Kimbley
President
Calgary, Alberta

Officers

Kelly Kimbley
CEO and President

Jana Lillies
Chief Financial Officer

Ulrich Wirth
Vice-President
Exploration

Omar El-Hajjar
Vice-President
Operations

David Orr
Vice-President
Business Development

Corporate Head Office

700, 903 – 8 Avenue S.W.
Calgary, Alberta T2R 0P7

Trustee and Transfer Agent

Computershare Trust Company

Solicitors

DS Lawyers

Auditors

MNP LLP