



PetroFrontier

Management's Discussion & Analysis

December 31, 2019

PetroFrontier Corp.
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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.

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, 2019 and 2018. 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 June 11, 2020.

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. Most notably, is "operating netback". Operating netback is a benchmark used in the crude oil and natural gas industry to measure the contribution of oil and natural gas sales and is calculated by deducting royalties and operating expenses but 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.

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Other terms used in this report are as follows:

bbbl – barrel

bbbls/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)

Corporate Overview

The Corporation is engaged in exploring for and the production of petroleum and natural gas in western Canada. The current core property is Cold Lake, a conventional heavy oil project.

Significant events which may impact the Corporation is 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 900, 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:

	2019	2018	2017
Net loss	\$ 824,775	2,290,208	\$ 1,761,506
Net comprehensive loss	824,775	2,290,208	1,761,506
Per common share (basic and diluted)	0.01	0.02	0.01
Working capital (deficiency)	(5,523,360)	(5,641,812)	(3,814,066)
Total assets	19,379,626	20,191,205	21,692,634
Total long-term liabilities	3,270,279	3,398,018	3,549,422
Shareholders' equity	\$ 10,167,370	10,969,915	\$ 13,218,706

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

As a result of the extraordinary collapse in oil prices resulting by steps taken by countries around the world to combat the spread of COVID-19, as well as the decisions made by OPEC members earlier in the first quarter, the entire petroleum industry has been severely impacted. This has greatly added to the difficulties of what had already been a deep and prolonged downturn in the energy sector. In response, like the entire industry, the Corporation immediately began to take steps to address this unprecedented turn of events. Those steps included further reducing costs (primarily in the form of reductions in G&A), slowing production rates and

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storing those reduced volumes. The result, of course, has been a dramatic reduction in cashflow from operations for the first and second quarters of 2020. As circumstances play themselves out, the Corporation's management and board will continue to monitor events closely with a view to determining the appropriate steps as we all deal with this most unprecedented of situations.

Prior to the pandemic, the Corporation's focus has been on optimizing value and continued cost reduction as it pursues additional capital to continue development of its asset base. That focus has allowed the Corporation to again achieve lower production operating costs and general and administrative expenses both quarter over quarter and year over year. Management shall remain diligent in its efforts to manage the Corporation in a manner that addresses near term challenges and long-term value realization. Those continued efforts, coupled with its current credit facilities (see "*Convertible notes payable*") and the ongoing support of its shareholders, will allow the Corporation to realize the value of its exceptional asset base in the future.

Core properties

The Corporation has interests in approximately 18 gross (16.5 net) sections arising under several joint operations with the wholly-owned energy companies of the Cold Lake First Nations ("CLFN"). As at December 31, 2019, fourteen (14) wells have been drilled under the joint ventures establishing multi-zone productivity and substantial reserves.

By virtue of a joint venture agreement with the wholly-owned energy company of the Bigstone Cree Nation ("BCN") dated May 7, 2018, the Corporation also has interests in approximately 1,216 gross hectares in the Wabasca area of north-central Alberta. The Corporation's interests are located between CNRL's prolific Brintnell field currently producing 63,000 bop/d of heavy oil and Husky's proposed 10,000 bop/d heavy oil project announced earlier this year.

Subsequent Events

Funding Transaction

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

Issuance of common shares

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

Covid – 19

The novel coronavirus ("COVID-19") outbreak was declared a pandemic by the World Health Organization on March 11, 2020. This has resulted in significant economic uncertainty and governments worldwide are enacting emergency measures to contain the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material

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disruption to businesses globally resulting in an economic slowdown. Global financial markets have experienced significant volatility and weakness as a consequence of this economic uncertainty. The duration and impact of the COVID-19 outbreak is unknown as this time, as is the effectiveness of interventions by governments and central banks. The full extent of the impact on the Company's future financial results is uncertain given the length and severity of these developments cannot be reliably estimated.

The Covid – 19 outbreak along with the OPEC members' actions on increasing oil production will have a negative effect on 2020 operations and in particular on liquidity matters and future impairment charges. The Corporation ceased shipping production on March 10, 2010 and has slowed and stored production since that time. There is no set date to commence shipping product again. This will impact liquidity which is discussed further in the section Liquidity and Capital Resources.

The Corporation will also assess the Property and Equipment for impairment in Q1 2020 as result of the lower oil and gas prices in 2020. For example, the average price received for WCS in Q4 2019 was \$54.29 and Q1 2020 was \$34.48, a 36% decrease.

Discussion of Operations

Revenue

2019	Annual	Q4	Q3	Q2	Q1
Revenue	\$3,112,833	\$636,298	\$743,601	\$985,710	\$747,224
# bbls	63,137	15,012	14,801	17,133	16,191
Bbls/d	173	163	161	188	180
Revenue per bbl	\$49.31	\$42.39	\$50.24	\$57.53	\$46.15
WCS -\$C per bbl	\$58.75	\$54.29	\$58.39	\$65.73	\$56.64
Differential to WCS	16.3%	21.9%	13.9%	13.8%	22.7%

2018	Annual	Q4	Q3	Q2	Q1
Revenue	\$3,557,724	\$275,430	\$1,070,613	\$1,283,113	\$928,568
# bbls	94,770	17,894	18,849	27,497	30,530
Bbls/d	260	195	204	302	339
Revenue per bbl	\$37.54	\$15.39	\$56.79	\$46.66	\$30.41
WCS -\$C per bbl	\$49.85	\$25.62	\$61.76	\$62.75	\$48.76
Differential to WCS	24.7%	25.0%	8.1%	25.6%	30.4%

The petroleum revenue for 2019 was \$3,112,833 (2018 - \$3,557,724) a decrease of \$444,891 with production averaging 173 bbls/d (2018 – 260 bbls/d). The Corporation realized an average price of \$49.31 per bbl for 2019 (2018 - \$37.54) while the WCS benchmark price for heavy oil averaged C\$58.75 (2018 – C\$49.85). The decrease in revenue in 2019 as compared to 2018 is attributable to a decrease of 31,633 of oil barrels sold resulting from fewer producing wells in 2019.

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

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Royalties

Royalty expense was \$249,411 for 2019 (2018 – \$288,950), being 8% of petroleum revenue for both years. Royalties are generally paid to Indian Oil and Gas Canada on behalf of the Cold Lake First Nation.

Production operating costs

Production operating costs were \$1,783,867 (\$28.25 per boe) in 2019 compared to \$2,948,519 (\$31.11 per boe) in 2018, a decrease of \$1,164,652 (\$2.86 per boe). The decrease in 2019 costs is primarily related to the Corporation's on-going cost reduction efforts related to repairs and maintenance, sand handling and fuel costs and a decrease in production volumes.

General and administrative expense

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

	Three months ended		Years ended	
	December 31		December 31	
	2019	2018	2019	2018
	(\$)	(\$)	(\$)	(\$)
Salaries and benefits	95,328	192,894	585,476	862,406
Office costs	83,807	70,109	275,005	322,297
Professional fees	(18,968)	47,982	210,882	250,985
Corporate and regulatory	5,586	4,422	30,131	25,395
	165,753	315,407	1,101,494	1,461,083

Overall, the general and administrative expenses have decreased \$149,654 quarter over quarter and \$359,589 for 2019 year to date over 2018 year to date. The decrease is primarily related salaries and wages where there was a reduction in head count and a salary rollback.

Overall, office costs have decreased annually in 2019 as compared to 2018 resulting from the ongoing cost reduction program.

Professional fees decreased \$66,950 when Q4 2019 is compared to Q4 2018. This results from an over accrual of \$48,074 that was reversed in Q4 2019 and a general reduction in professional services. The professional fees on an annual basis are comparable for 2019 and 2018 after adjusting for the over accrual of \$48,074.

Depletion and depreciation

Depletion and depreciation were \$431,597 for 2019 (2018 - \$739,505). 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 for the first nine months of 2019 was \$6.83 as compared to \$7.80 in 2018.

Accretion on decommissioning liabilities

Accretion expense was \$287,525 for 2019 (2018 - \$256,477) and reflects the increase in the liability due to the passage of time.

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Finance income and expense

Finance expense was \$278,714 in 2019 as compared to \$111,981 for the same period in 2018 an increase of \$166,733. The increase in the expense in 2019 was impacted by the year to date accretion of \$147,013 related to the debenture and the convertible note payable where there was none in 2018.

Operating Netback

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

	Three months ended December 31, 2019		Year ended December 31, 2019	
		Per boe		Per boe
Production (boe)	15,012		63,137	
Average daily production (boe/d)	163		173	
Petroleum and natural gas revenue	\$636,298	\$42.39	\$3,112,833	\$49.31
Royalties	\$39,744	\$2.65	\$249,411	\$3.94
Production operating costs ⁽¹⁾	\$393,135	\$29.19	\$1,535,651	\$24.32
Operational netback	\$203,419	\$13.55	\$1,327,771	\$21.03

(1) excludes annual lease rentals of \$93,561 and \$248,216 for the three months and year ended December 31, 2019, respectively, related to non-producing lands

	Three months ended December 31, 2018		Year ended December 31, 2018	
		Per boe		Per boe
Production (boe)	17,894		94,770	
Average daily production (boe)	195		260	
Petroleum and natural gas revenue	\$275,430	\$15.39	\$3,557,724	\$37.54
Royalties	\$29,991	\$1.68	\$288,950	\$3.05
Production operating costs ⁽²⁾	\$608,243	\$33.99	\$2,660,115	\$28.07
Operational netback	(\$362,804)	(\$20.28)	\$608,659	\$6.42

(1) excludes annual lease rentals of \$74,458 and \$288,404 for the three months and year ended December 31, 2018, respectively, related to non-producing lands

The Corporation's netback was \$14.70 higher in 2019 as compared to 2018. The increase is mainly related to the increase in the selling price per boe which was \$11.77 higher in 2019. The selling price per boe in Q4 2018 was unusually low at \$15.39 which impacted the 2018 net back.

The Corporation's operating netback was higher in Q4 2019 when compared to Q4 2018 as there was a significant decrease in the selling price of oil in Q4 2018.

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

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Details of quarterly pricing in 2019 and 2018 is as follows:

2019	Q4	Q3	Q2	Q1
WTI - \$US/bbl	56.96	56.45	59.81	54.90
WCS Dollar Differential to WTI - US\$/bbl	15.83	12.24	10.68	12.29
WCS % Differential	28%	22%	18%	22%

2018	Q4	Q3	Q2	Q1
WTI - \$US/bbl	58.81	69.50	67.88	62.87
WCS Dollar Differential to WTI –US\$/bbl	21.99	22.25	19.27	24.28
WCS % Differential	37%	32%	28%	39%

As with most energy companies today, an increase in crude oil prices will have a significant positive impact on bottom line operating results. Management is prepared to increase activity with a view to increasing production in a more favourable price environment, which would improve the netback given the effect of spreading fixed operating costs over a larger production base.

Quarterly results

	Three months ended December 31, 2019	Three months ended December 31, 2018
Petroleum and natural gas revenue	\$636,298	\$275,430
Royalties	\$39,744	\$29,991
	\$596,554	\$245,439
Expenses:		
Production operating costs	\$486,696	\$682,702
General & Administrative	\$165,753	\$315,407
Depletion and depreciation	\$102,803	\$125,471
Accretion	\$74,030	\$65,986
Finance costs	\$71,154	32,024
Net and comprehensive loss	\$303,882	\$976,151

The significant factor in comparing Q4 2019 to Q4 2018 relates to the sales price of oil in 2018. In November and December 2018, there was a significant decrease in the price of oil such that the realized price was only \$15.39 per bbl in Q4 2018 versus \$42.39 per bbl in Q4 2019. This decrease in sales price per bbl accounts for a significant portion of the Q4 2018 loss.

Cash

As at December 31, 2019, the Corporation had a bank overdraft of \$277,758 as compared to cash of \$76,766 as at December 31, 2018. The bank overdraft in 2019 results from cash used in operations of \$738,765, payment of \$185,759 for capital expenditures offset by the proceeds of \$570,000 from the issuance of the convertible note.

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Trade and other receivables

The balance of trade and other receivables were \$352,754 at December 31, 2019 as compared to \$46,422 at December 31, 2018. The receivable balance was lower at December 31, 2018 as there were no oil sales in December or November that resulted in cash proceeds since diluent costs exceeded the oil sales proceeds.

Prepaid Expenses and Deposits

Prepaid expenses and deposits at December 31, 2019 were \$65,863 (December 31, 2018 - \$58,272) and is primarily comprised of prepaid industry fees.

Property and equipment

The Corporation did not drill any wells in 2019 and 2018 thus capital expenditures have been minimal.

Trade and other payables

Trade and other payables at December 31, 2019 were \$1,887,739 as compared to \$2,233,272 at December 31, 2018. The trade and other payables reflect a slower payment schedule in order to manage liquidity.

Convertible notes payable

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

Convertible Note #1

On May 16, 2018, the Corporation finalized a credit facility with a corporation controlled by a director (the "Lender"), which provides for a credit facility not exceeding \$1,500,000. The advances under the credit facility bear interest at 8% per annum payable monthly and are secured by a General Security Agreement with the minimum advance being \$500,000.

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

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

Convertible Note #2

On June 3, 2019, the Corporation finalized a credit facility with a corporation controlled by a director (the “Lender”), which provides for a credit facility not exceeding \$2,000,000. The advances under the credit facility bear interest at 8% per annum payable monthly and are secured by a General Security Agreement.

The Lender will have the option to convert the advances under the credit facility into common shares of the Corporation (“Common Shares”). The conversion price per Common Share shall be: (i) \$0.065 for the first year of the term of the loan; and (ii) \$0.10 for the second year of the term of the loan.

The credit facility matures two years from the date of closing being June 3, 2021. As at December 31, 2019, \$570,000 has been advanced under this credit facility. A further \$500,000 was advanced under this facility in 2020.

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

Debenture

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

On July 21, 2016, the Corporation issued a 3% secured convertible debenture in the principal amount of \$3,000,000 to Kasten. The debenture was to mature no later than September 30, 2019 and is secured against the property of the Corporation. In June 2019, the debenture holder, at no cost to the Corporation, extended the maturity date of the debenture for one year subject to a 60-day notice period dependent on certain events occurring, with interest payable at maturity and has cancelled the conversion feature contained in the original debenture issued in 2016.

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

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

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

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

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 \$5,017,254 (December 31, 2018 - \$5,017,254) which will be settled over the operating lives of the underlying assets, estimated to occur primarily over the next ten years. A credit adjusted interest rate of 9% (2018 – 8%) and an inflation rate of 2% (2018 – 2%) were used to calculate the decommissioning liability. Settlement of the liability will be funded from general corporate funds at the time of retirement or removal.

Changes to the liabilities were as follows:

	December 31 2019 (\$)	December 31 2018 (\$)
Balance, beginning of year	3,488,018	3,549,422
Revisions to previously recorded liabilities	(728,567)	(317,881)
Accretion	287,525	256,477
	3,046,976	3,488,018
Current portion	(330,000)	(90,000)
Balance, end of year	2,716,976	3,398,018

Net Loss

The Corporation recorded a net loss in 2019 of \$824,775 as compared to a loss of \$2,290,208 in 2018. The reduction in the net loss the ongoing cost reduction program and improved pricing for oil.

Common share information

Issued – common shares

	Year Ended December 31, 2019		Year Ended December 31, 2018	
	Number of shares	Amount (\$)	Number of shares	Amount (\$)
Common Shares				
Balance, beginning and end of period	149,600,768	131,202,046	149,600,768	131,202,046

At the date of this MD&A, there are 178,172,197 Common Shares outstanding.

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Stock options

Officers and directors of the Corporation have been granted options to purchase common shares. Options granted have a term of five years to expiry and typically vest equally over a two-year period on the basis of 40% on the date of grant, 30% on the first anniversary date of the grant, and 30% on the second anniversary date of the grant. The exercise price of each option equals the market price or greater of the Corporation's common shares on the date of grant.

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

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

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

	Options outstanding			Options exercisable	
	Number outstanding at period end	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at period end	Weighted average exercise price
Exercise price (\$)	12,800,000	1.58	\$0.16	12,800,000	\$0.16

The potential diluted number of common shares outstanding is as follows:

	December 31, 2019
Common shares	149,600,768
Options	12,800,000
Total common shares (diluted)	162,400,768

The options are anti-dilutive as the Corporation is in a loss position.

Liquidity and capital resources

As at December 31, 2019, the Corporation had a bank overdraft of \$277,758 (December 31, 2018 – cash of \$76,766) and continues to have a history of negative cash flow from operations. In recognition of these conditions, the Corporation completed a private placement of common shares in 2020 for cash proceeds of \$1,500,000 (*Subsequent Events*), negotiated two credit facilities not exceeding \$1,500,000 and \$2,000,000 in the second quarter of 2018 and 2019 respectively, which are further described in *Convertible Notes Payable*, has taken steps to reduce operational costs and has negotiated a one-year extension on the maturity date of the

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debenture. 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 had breached a condition of Convertible Note #1 and on April 27, 2019 the holder of Convertible Note #1 waived the default. There have been no other breaches of debt covenants in 2019.

In response to the collapse in oil prices and the global economic instability related to COVID-19, we have taken additional actions to protect our financial liquidity. Our 2020 exploration and development plans may be reduced by requesting an extension of drilling operations where deadlines are involved. In addition, all discretionary drilling will be reviewed throughout the year. We have also shut-in low margin production and have the ability to shut-in additional volumes or quickly restart production in response to further changes in the commodity price environment. We remain focused on driving further efficiencies in our operations and this includes reducing salaries for all fulltime employees effective April 1, 2020.

The Corporation expects to generate sufficient funds from future operations in order to adequately fund general operations with savings from a cost reduction program and with the credit facilities now finalized but will require additional funds in order 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 any of its financial liabilities other than the payment of debenture interest as previously discussed.

Material Contracts, Commitments and Contingencies

Office lease

The Corporation had an office lease that required monthly payments of \$8,288 which expired July 31, 2019. The lease is now on a month to month basis with monthly payments of \$8,000.

For 2019, the Corporation expensed \$79,815 related to the operating lease (2018 - \$82,843).

Drilling commitments

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

As set out under the Development Agreement discussed below, the Corporation is required to spud five (5) test wells and complete, cap, plug or abandon the drilled wells. If the wells are not drilled by the respective expiry dates, the lease shall then terminate with respect to all unearned spacing units within the Leased Lands.

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The expiry dates are as follows:

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

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

Decommissioning obligations

Pursuant to the Inactive Well Compliance Program ("IWC Program"), the Alberta Energy Regulator (the "AER") identified 22 wells in which the Corporation has a working interest that require some form of surface and/or downhole reclamation work. The AER requested the work be completed by March 31, 2020. The Corporation's estimates the reclamation work will cost a total of \$330,000 and that amount has been included in the current portion of decommissioning liabilities on the Consolidated Statement of Financial Position at December 31, 2019.

Litigation

During the year ended December 31, 2014, Macquarie Capital Markets Canada Ltd. filed a Statement of Defense and Counterclaim against the Corporation in response to a Statement of Claim filed by the Corporation against Macquarie in the Court of Queen's Bench of Alberta on July 7, 2014. The Corporation has not recorded a contingent liability associated with the Counterclaim as the Corporation is of the opinion the Counterclaim is without merit. The Corporation is continuing with its lawsuit against Macquarie and its defense of the Counterclaim.

Development Agreement

On May 9, 2018, the Corporation entered into a development agreement (the "Agreement") for \$250,000 with Bigstone Oil & Gas Ltd., the wholly-owned energy company of the Bigstone Cree Nation. The Agreement provides for the development of an initial 3,040 acres of oil and gas rights from surface to the base of the Mannville in the Wabasca area of north-central Alberta under lease to Bigstone Oil & Gas Ltd. (the "Lease"). The Lease provides for an Alberta Provincial Crown equivalent royalty with a minimum rate of 10%. Under the terms of the Agreement, PetroFrontier, as operator, has the right to earn a 90% before payout working interest and 50% after payout working interest in five earning wells to be drilled by March 31, 2021 and a 50% working interest in the balance of the Lease. To date, one earning well has been drilled.

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.

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Interest rate risk

At December 31, 2019 and 2018, the Corporation had no outstanding floating interest rate debt and is not exposed to interest rate risk at this time.

Liquidity risk

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

The Corporation has a working capital deficiency of \$5,523,360 at December 31, 2019 (2018 -\$5,641,812). The Corporation expects it will have adequate liquidity to fund its existing financial liabilities and ongoing operating and general administrative expenses through its existing operations, by utilizing its existing credit facilities and the continued support of the Corporation's related parties.

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 expects to satisfy obligations under trade and other payable in less than one year.

The Corporation had a commitment to drill two wells in 2019 which has now been extended to 2020 such that four wells are required to be drilled in 2020 of which one well has been drilled to date. The Corporation is in discussion to extend the expiry dates for drilling the three other wells. The Corporation may be required to secure debt and/or equity financing in order to meet their 2020 capital commitment these wells.

Market risk

Market risk is comprised of currency risk, interest rate risk and other price risks which consist primarily of fluctuations in petroleum and natural gas prices. With no bank debt as at December 31, 2019 and 2018, there is no current direct exposure to fluctuations in interest rates. The Corporation is exposed to fluctuations in commodity prices which affects the Corporation's revenue and any adverse fluctuations in interest rates, and commodity prices may indirectly affect the Corporation's ability to obtain equity financing and future bank debt, if required, and on favorable terms. The Corporation does not have any derivatives in place to manage price risk.

Summary of Quarterly Results (unaudited)

	December 31,	September 30,	June 30,	March 31,
Fiscal Quarter Ended - \$	2019	2019	2019	2019
Revenue	636,298	743,601	985,710	747,224
Net income (loss)	(303,882)	(329,984)	119,391	(310,300)
Net loss per share	0.00	0.00	0.00	(0.01)
	December 31,	September 30,	June 30,	March 31,
Fiscal Quarter Ended - \$	2018	2018	2018	2018
Revenue	275,430	1,070,613	1,283,113	928,568
Net loss	(976,151)	(577,907)	(112,328)	(623,822)
Net loss per share	(0.01)	0.00	0.00	(0.01)

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2019

In 2019, the Corporation sold 31,633 less barrels of oil as compared to 2018 which is reflected in the lower revenue per quarter. The Corporation had less wells operating daily than in 2018 and one well paid out in 2018 thus the working interest changed from 90% and 50% in 2018 while in 2019, the working interest in the well was 50%.

The quarterly net losses in 2019 were fairly consistent except for Q2 when the Corporation recorded income of \$195,000 related to the non-cash fair value adjustment of the debenture payable.

2018

The revenue in Q1 to Q3 inclusive was relatively consistent in 2018 with the barrels sold and pricing complementing each other in order to maintain fairly consistent revenues over the period.

The revenue in the fourth quarter of 2018 was lower than the other quarters due to unusually low oil prices.

The net loss in Q2 2018 was lower than other quarters in 2018 because the realized selling price of oil and the barrels sold were significantly higher than other quarters.

Related parties

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

Other related party transactions are as follows:

- The \$3,000,000 debenture issued to Kasten as part of the 2016 purchase consideration remains outstanding.
- Interest expense for the year ended December 31, 2019 related to Kasten debenture (note 6) of \$90,000 (2018 - \$90,000) was recorded in the Statement of Loss and Comprehensive Loss. At December 31, 2019, \$247,500 (December 31, 2018 - \$157,500) remains unpaid and is included in trade and other payables.
- The convertible note payable of \$500,000 is owing to a Corporation controlled by the former director. Interest expense for the year ended December 31, 2019 was \$40,000 (2018 - \$23,342 and a \$10,000 structuring fee was paid) and recorded in the Statement of Loss and Comprehensive Loss. At December 31, 2019, interest payable of \$44,318 (2018 - \$6,575) is included in trade and other payables.
- In 2018, the Corporation acquired \$2,205 of drilling inventory at fair value from a supplier in which a director held an interest. At December 31, 2019, \$128,696 (December 31, 2018 - \$128,696) is included in trade and other payables.
- The Corporation recovered rent and other office expenses from a corporation related by common directors and officers in 2019 of \$19,200 (2018 - \$21,926).

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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, 2019. The total future obligation from these operating leases is described above in the section "Material Contracts, Commitments and Contingencies".

Accounting Standards Adopted in 2019

In January 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16") to replace IAS 17, "Leases". Under IFRS 16, a single recognition and measurement model will apply for lessees, which will require recognition of assets and liabilities for most leases. IFRS 16 is effective for years beginning on or after January 1, 2019 with earlier adoption permitted. The adoption of IFRS 16 on the Corporation's consolidated financial statements did not have an impact.

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.

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History of Losses

The Corporation has historically incurred losses from operations. As at December 31, 2019, the Corporation had a cumulative deficit of \$127,699,302. 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

The Corporation's cash used in excess of the cash generated from operations in 2019 was \$738,765. The Corporation has a history of negative cash flow from operations and the inability of the Corporation to generate positive operating cash inflow in the future could have a material adverse impact on its business, operations and prospects. There is uncertainty at this time as the effect of Covid – 19 on future operations of the Company

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.

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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

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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.

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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 900, 903 - 8th Avenue S.W. Calgary, Alberta, Canada T2P 0P7.

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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

Robert L. Gillies
Vice-President
Finance, Secretary and
Chief Financial Officer

Ulrich Wirth
Vice-President
Exploration

Omar El-Hajjar
Vice-President
Operations

David Orr
Vice-President
Business Development

Corporate Head Office

900, 903 – 8 Avenue S.W.
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Trustee and Transfer Agent

Computershare Trust Company

Solicitors

Burstall LLP

Auditors

PricewaterhouseCoopers LLP