



**Condensed Interim Consolidated  
Financial Statements  
September 30, 2018**

## **THIRD QUARTER 2018 CONSOLIDATED FINANCIAL STATEMENTS**

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### **UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed interim consolidated financial statements for the period ended September 30, 2018.

### **NOTICE TO READER OF THE INTERIM FINANCIAL STATEMENTS**

The condensed interim consolidated financial statements of PetroFrontier Corp. comprising the accompanying condensed consolidated statement of financial position as at September 30, 2018 and the condensed consolidated statement of loss and comprehensive loss, changes in equity and cash flows for the three and nine month periods then ended are the responsibility of the Company's management.

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

Signed: "Kelly Kimbley"

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Kelly Kimbley  
Chief Executive Officer

Signed: "Robert Gillies"

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Robert Gillies  
Chief Financial Officer

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

(Canadian Dollars)

| <i>As at</i>                                            | September 30,<br>2018 | December 31,<br>2017 |
|---------------------------------------------------------|-----------------------|----------------------|
| <b>ASSETS</b>                                           |                       |                      |
| <b>Current</b>                                          |                       |                      |
| Cash                                                    | \$ 122,398            | \$ 221,461           |
| Trade and other receivables                             | 645,701               | 748,163              |
| Prepaid expenses and deposits                           | 112,890               | 140,816              |
|                                                         | 880,989               | 1,110,440            |
| <b>Property and equipment (note 5)</b>                  | 20,419,297            | 20,582,194           |
|                                                         | <b>\$ 21,300,286</b>  | <b>\$ 21,692,634</b> |
| <b>LIABILITIES</b>                                      |                       |                      |
| <b>Current</b>                                          |                       |                      |
| Trade and other payables                                | \$ 2,114,307          | \$ 1,924,506         |
| Current portion of decommissioning liabilities (note 8) | 90,000                | -                    |
| Debenture (note 6)                                      | 3,000,000             | 3,000,000            |
|                                                         | 5,204,307             | 4,924,506            |
| <b>Convertible note payable (note 7)</b>                | 500,000               | -                    |
| <b>Decommissioning liabilities (note 8)</b>             | 3,649,913             | 3,549,422            |
|                                                         | 9,354,220             | 8,473,928            |
| <b>SHAREHOLDERS' EQUITY</b>                             |                       |                      |
| Share capital (Note 9)                                  | 131,202,046           | 131,202,046          |
| Contributed surplus (Note 9)                            | 11,912,279            | 11,870,862           |
| Accumulated other comprehensive loss                    | (5,269,883)           | (5,269,883)          |
| Deficit                                                 | (125,898,376)         | (124,584,319)        |
|                                                         | 11,946,066            | 13,218,706           |
|                                                         | <b>\$ 21,300,286</b>  | <b>\$ 21,692,634</b> |

See accompanying notes to the condensed interim consolidated financial statements

Going concern (note 2)

Commitments and contingencies (Note 11)

# ***PetroFrontier Corp.***

## **CONDENSED CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS**

*(Unaudited)*

*(Canadian Dollars)*

|                                                   | <b>Three months ended<br/>September 30</b> |                  | <b>Nine months ended<br/>September 30</b> |                    |
|---------------------------------------------------|--------------------------------------------|------------------|-------------------------------------------|--------------------|
|                                                   | <b>2018</b>                                | <b>2017</b>      | <b>2018</b>                               | <b>2017</b>        |
| <b>PETROLEUM REVENUE</b>                          | 1,070,613                                  | 1,537,431        | 3,282,294                                 | 4,242,493          |
| <b>Less: royalties</b>                            | (86,929)                                   | (140,299)        | (258,959)                                 | (347,836)          |
|                                                   | <b>983,684</b>                             | <b>1,397,132</b> | <b>3,023,335</b>                          | <b>3,894,657</b>   |
| <b>EXPENSES</b>                                   |                                            |                  |                                           |                    |
| Production operating costs                        | 912,645                                    | 809,074          | 2,265,817                                 | 2,511,965          |
| General and administrative (note 13)              | 349,331                                    | 445,337          | 1,145,676                                 | 1,285,580          |
| Depletion and depreciation (note 5)               | 196,718                                    | 257,615          | 614,034                                   | 728,106            |
| Accretion on decommissioning liabilities (note 8) | 64,842                                     | 60,473           | 190,491                                   | 178,412            |
| Share-based compensation (note 9)                 | 5,917                                      | 29,587           | 41,417                                    | 136,101            |
|                                                   | <b>1,529,453</b>                           | <b>1,602,086</b> | <b>4,257,435</b>                          | <b>4,840,166</b>   |
| Finance income                                    | (913)                                      | (812)            | (913)                                     | (4,344)            |
| Finance expense                                   | 33,051                                     | 54,507           | 80,870                                    | 161,650            |
|                                                   | <b>32,138</b>                              | <b>53,695</b>    | <b>79,957</b>                             | <b>157,306</b>     |
| <b>NET AND COMPREHENSIVE LOSS</b>                 | <b>(577,907)</b>                           | <b>(258,649)</b> | <b>(1,314,057)</b>                        | <b>(1,102,815)</b> |
| <b>Net loss per share</b>                         |                                            |                  |                                           |                    |
| <b>Basic and diluted (note 9)</b>                 | <b>(0.00)</b>                              | <b>(0.00)</b>    | <b>(0.01)</b>                             | <b>(0.01)</b>      |

See accompanying notes to the condensed interim consolidated financial statements

# ***PetroFrontier Corp.***

## **CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

*(Unaudited)*

*(Canadian Dollars)*

|                                   | Share<br>Capital   | Contributed<br>Surplus | Accumulated<br>Other<br>Comprehensive<br>Income | Deficit              | Total Equity      |
|-----------------------------------|--------------------|------------------------|-------------------------------------------------|----------------------|-------------------|
| <b>Balance at January 1, 2018</b> | <b>131,202,046</b> | <b>11,870,862</b>      | <b>(5,269,883)</b>                              | <b>(124,584,319)</b> | <b>13,218,706</b> |
| Net loss                          | -                  | -                      | -                                               | (1,314,057)          | (1,314,057)       |
| Share-based compensation          | -                  | 41,417                 | -                                               | -                    | 41,417            |
| <b>Balance at Sept. 30, 2018</b>  | <b>131,202,046</b> | <b>11,912,279</b>      | <b>(5,269,883)</b>                              | <b>(125,898,376)</b> | <b>11,946,066</b> |
| <b>Balance at January 1, 2017</b> | <b>131,202,046</b> | <b>11,717,009</b>      | <b>(5,269,883)</b>                              | <b>(122,822,813)</b> | <b>14,826,359</b> |
| Net loss                          | -                  | -                      | -                                               | (1,102,815)          | (1,102,815)       |
| Share-based compensation          | -                  | 136,101                | -                                               | -                    | 136,101           |
| <b>Balance at Sept. 30, 2017</b>  | <b>131,202,046</b> | <b>11,853,110</b>      | <b>(5,269,883)</b>                              | <b>(123,925,628)</b> | <b>13,859,645</b> |

See accompanying notes to the condensed interim consolidated financial statements

# PetroFrontier Corp.

## CONDENSED CONSOLIDATION STATEMENT OF CASH FLOWS

(Unaudited)

(Canadian dollars)

|                                                                |      | Nine months ended September 30, |                    |
|----------------------------------------------------------------|------|---------------------------------|--------------------|
|                                                                | Note | 2018                            | 2017               |
| <b>Cash provided by (used in)</b>                              |      |                                 |                    |
| <b>OPERATING</b>                                               |      |                                 |                    |
| Net loss                                                       |      | (1,314,057)                     | (1,102,815)        |
| Depletion and depreciation                                     | 5    | 614,034                         | 728,106            |
| Accretion on decommissioning liabilities                       | 7    | 190,491                         | 178,412            |
| Share-based compensation                                       | 9    | 41,417                          | 136,101            |
| Convertible debt accretion                                     |      | -                               | 94,150             |
| Change in non-cash working capital                             | 10   | 30,230                          | 176,152            |
| <b>Cash flow used in operating activities</b>                  |      | <b>(437,885)</b>                | <b>210,106</b>     |
| <b>FINANCING</b>                                               |      |                                 |                    |
| Proceeds from convertible note payable                         | 7    | 500,000                         | -                  |
| <b>INVESTING</b>                                               |      |                                 |                    |
| Expenditures on property and equipment                         |      | (161,178)                       | (2,2,375,028)      |
| Purchase price consideration payment                           |      | -                               | (616,181)          |
| <b>Cash flow used in investing activities</b>                  |      | <b>(161,178)</b>                | <b>(2,991,209)</b> |
| Decrease in cash and cash equivalents                          |      | (99,063)                        | (2,781,103)        |
| Cash and cash equivalents and term deposits, beginning of year |      | 221,461                         | 3,266,614          |
| <b>Cash and cash equivalents, end of period</b>                |      | <b>122,398</b>                  | <b>445,511</b>     |

See accompanying notes to the condensed interim consolidated financial statements

# **PetroFrontier Corp.**

## **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018**

### **1. REPORTING ENTITY**

PetroFrontier Corp. (the “Corporation”) was incorporated in Alberta, Canada on February 6, 2009 under the name Australia Energy Corp. The Corporation’s registered office is 900, 903 – 8<sup>th</sup> Ave. S.W. Calgary, Alberta, Canada T2P 0P7. The Corporation is engaged in exploring for and the production of petroleum and natural gas in western Canada.

The consolidated financial statements of the Corporation as at and for the three and nine months ended September 30, 2018 comprises the Corporation and its two wholly-owned, inactive Australian subsidiaries, PetroFrontier (Australia) Pty Ltd (“PetroFrontier Australia”) and Texalta (Australia) Pty Ltd (“Texalta Australia”).

### **2. GOING CONCERN**

These financial statements have been prepared using International Financial Reporting Standards (“IFRS”) as they apply to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. The Corporation continues to incur losses from operations as evidenced by the 2018 net loss to September 30th of \$1,314,057, was unable to pay debenture interest payments of \$135,000 as described in note 6 and has a working capital deficiency of \$4,323,318 (December 31, 2017 - \$3,814,066). These circumstances cause material uncertainties that may cast significant doubt upon the Corporation’s ability to continue as a going concern, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In recognition of these conditions, the Corporation has negotiated a credit facility not exceeding \$1,500,000 which is further described in note 7, Convertible Note Payable and has taken steps to reduce operational costs and will seek the continued support of the debenture holder.

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

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

### **3. BASIS OF PRESENTATION**

#### **A) Statement of compliance**

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

## NOTES (continued)

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of November 26, 2018, the date the condensed interim consolidated financial statements were approved by the Corporation's Audit Committee for issuance. The policies applied are consistent throughout all periods presented in these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements should be read in conjunction with the Corporation's 2017 annual consolidated financial statements.

### **B) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except as disclosed in note 4 to the 2017 annual consolidated financial statements.

### **C) Functional and presentation currency**

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

### **D) Use of estimates and judgments**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements are outlined in the Company's financial statements for the year ended December 31, 2017.

## **4. SIGNIFICANT ACCOUNTING POLICIES**

These condensed interim financial statements should be read in conjunction with the annual financial statements and accompanying notes for the year ended December 31, 2017. These condensed interim financial statements have been prepared following the same accounting policies as described in note 4 of the Company's annual consolidated financial statements for the year ended December 31, 2017 except as noted below:

### ***IFRS 9 – Financial Instruments***

Effective January 1, 2018, the Corporation adopted *IFRS 9 – Financial Instruments* ("IFRS 9") which supersedes *IAS 39 – Financial instruments: recognition and measurement* ("IAS 39"). The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classifications: amortized cost and fair value. Under IFRS 9, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risk is recorded through other comprehensive income (loss) rather than net income (loss). The new standard also introduces a credit loss model for evaluating impairment of financial assets. There is no significant effect on the carrying value of other financial instruments under IFRS 9 related to this new requirement.

## NOTES (continued)

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income (“FVTOCI”) and fair value through profit and loss (“FVTPL”). The IFRS 9 accounting model for financial liabilities is broadly the same as that in IAS 39 meaning that most financial liabilities will continue to be measured at amortized cost.

IFRS 9 replaces the “incurred loss” model in IAS 39 with a forward-looking “expected credit loss” (“ECL”) model for determining impairment or recognition of credit losses on financial assets measured at amortized cost (“AC”) or at FVTOCI. There is no impact to the Corporation as credit losses have been non-existent as the customers have had strong credit.

Below is a summary indicating the classification and measurement bases of the Corporation’s financial instruments as at January 1, 2018, as a result of adopting IFRS 9 along with a comparison to IAS 39.

| <b>Financial Instrument</b> | <b>IAS 39</b>               |                | <b>IFRS 9</b>  |                |
|-----------------------------|-----------------------------|----------------|----------------|----------------|
| Asset                       | Classification              | Measurement    | Classification | Measurement    |
| Cash                        | FVTPL                       | Fair value     | Amortized cost | Amortized cost |
| Trade and other receivables | Loans and receivables       | Amortized cost | Amortized cost | Amortized cost |
| Deposits                    | Loans and receivables       | Amortized cost | Amortized cost | Amortized cost |
| Liabilities                 |                             |                |                |                |
| Trade and other payables    | Other financial liabilities | Amortized cost | Amortized cost | Amortized cost |
| Debentures < 1 year         | Other financial liabilities | Amortized cost | Amortized cost | Amortized cost |

### ***IFRS 15 – Revenue from Contracts with Customers***

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

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

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

## NOTES (continued)

therefore recognizes revenue on a net basis. The Corporation would act as a principal when it controls the product delivered before the control passes to the customer.

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

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

### Future Accounting Standards

#### IFRS 16 - Leases

IFRS 16 was issued in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. This standard is effective for reporting periods beginning on or after January 1, 2019. The Corporation is still assessing this standard.

## 5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

|                                           | Oil & Gas<br>Properties | Office<br>Equipment | Total                |
|-------------------------------------------|-------------------------|---------------------|----------------------|
| <b>Cost</b>                               |                         |                     |                      |
| Balance, December 31, 2016                | \$ 18,740,903           | 9,610               | \$ 18,750,513        |
| Revisions – decommissioning liabilities   | (195,157)               | -                   | (195,157)            |
| Additions                                 | 3,163,636               | -                   | 3,163,636            |
| Disposals                                 | -                       | (3,233)             | (3,233)              |
| Balance, December 31, 2017                | 21,709,382              | 6,377               | 21,715,759           |
| Additions                                 | 451,137                 | -                   | 451,137              |
| Balance, September 30, 2018               | 22,160,519              | 6,377               | 22,166,896           |
| <b>Accumulated Depreciation</b>           |                         |                     |                      |
| Balance, December 31, 2016                | (218,448)               | (5,359)             | (223,807)            |
| Disposals                                 | -                       | 3,233               | 3,233                |
| Depletion and depreciation                | (910,865)               | (2,126)             | (912,991)            |
| Balance, December 31, 2017                | (1,129,313)             | (4,252)             | (1,133,565)          |
| Depletion and depreciation                | (612,440)               | (1,594)             | (614,034)            |
| Balance, September 30, 2018               | (1,741,753)             | (5,846)             | (1,747,599)          |
| <b>Net book value, September 30, 2018</b> | <b>\$ 20,418,766</b>    | <b>531</b>          | <b>\$ 20,419,297</b> |
| <b>Net book value, December 31, 2017</b>  | <b>\$ 20,580,067</b>    | <b>2,125</b>        | <b>\$ 20,582,194</b> |

## NOTES (continued)

At September 30, 2018, future development costs of \$42,496,000 (2016 - \$37,787,000) associated with proved and probable reserves are included in costs subject to depletion.

### 6. DEBENTURE PAYABLE

|                            | September 30, 2018 (\$) | December 31, 2017 (\$) |
|----------------------------|-------------------------|------------------------|
| Balance, beginning of year | 3,000,000               | 2,663,207              |
| Accretion in the year      | -                       | 336,793                |
|                            | <b>3,000,000</b>        | <b>3,000,000</b>       |
| Less: current portion      | <b>(3,000,000)</b>      | <b>(3,000,000)</b>     |
| Balance, end of period     | -                       | -                      |

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

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

As at September 30, 2018, interest of \$135,000 (December 31, 2017 - \$67,500) had not been paid as required under the terms of the original debenture. On April 25, 2018, the debenture holder waived the requirement to pay interest until maturity including the arrears interest.

### 7. CONVERTIBLE NOTE PAYABLE

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

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

The credit facility matures two years from the date of closing.

To date, \$500,000 has been advanced under this credit facility and a structuring fee of \$10,000 has been paid.

### 8. DECOMMISSIONING LIABILITY

The Corporation’s total decommissioning liability is estimated based on the Corporation’s net ownership in wells and facilities and management’s estimate of costs to abandon and reclaim those wells and facilities, as well as an estimate of the future timing of the costs to be incurred.

## NOTES (continued)

By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements could be significant. The total undiscounted amount of the estimated cash flows required to settle its decommissioning liabilities are approximately \$5,017,254 (December 31, 2017 - \$5,017,254) which will be settled over the operating lives of the underlying assets, estimated to occur primarily over the next ten years. A credit adjusted interest rate of 7% (2017 – 7%) and an inflation rate of 2% (2017 – 2%) were used to calculate the decommissioning liability. Settlement of the liability will be funded from general corporate funds at the time of retirement or removal.

Changes to the liabilities were as follows:

|                                              | September 30<br>2018 (\$) | December 31<br>2017 (\$) |
|----------------------------------------------|---------------------------|--------------------------|
| <b>Decommissioning Liabilities</b>           |                           |                          |
| <b>Balance, beginning of year</b>            | <b>3,549,422</b>          | 3,463,498                |
| Liabilities incurred                         | -                         | 41,128                   |
| Revisions to previously recorded liabilities | -                         | (195,157)                |
| Accretion                                    | <b>190,491</b>            | 239,953                  |
|                                              | <b>3,739,913</b>          | 3,549,422                |
| <b>Current portion</b>                       | <b>(90,000)</b>           | -                        |
| <b>Balance, end of period</b>                | <b>3,649,913</b>          | 3,549,422                |

## 9. SHARE CAPITAL

### A) Authorized

Unlimited number of common voting shares, no par value.

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

### B) Issued – common shares of PetroFrontier

|                                             | Nine Months Ended<br>September 30, 2018 |                    | Year Ended<br>December 31, 2017 |                    |
|---------------------------------------------|-----------------------------------------|--------------------|---------------------------------|--------------------|
|                                             | Number of<br>shares                     | Amount<br>(\$)     | Number of<br>shares             | Amount<br>(\$)     |
| <b>Common Shares</b>                        |                                         |                    |                                 |                    |
| <b>Balance, beginning and end of period</b> | <b>149,600,768</b>                      | <b>131,202,046</b> | <b>149,600,768</b>              | <b>131,202,046</b> |

### C) Stock options

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

## NOTES (continued)

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

|                                                 | Nine months ended Sept. 30,<br>2018 |                                       | Year ended December 31,<br>2017 |                                       |
|-------------------------------------------------|-------------------------------------|---------------------------------------|---------------------------------|---------------------------------------|
|                                                 | #                                   | Weighted<br>average<br>exercise price | #                               | Weighted<br>average<br>exercise price |
| <b>Outstanding, beginning and end of period</b> | <b>13,900,000</b>                   | <b>\$ 0.16</b>                        | <b>13,900,000</b>               | <b>\$ 0.16</b>                        |
| <b>Exercisable, end of period</b>               | <b>13,900,000</b>                   | <b>\$ 0.16</b>                        | <b>10,060,000</b>               | <b>\$ 0.16</b>                        |

The following table summarizes stock options outstanding and exercisable under the plan at September 30, 2018.

| Exercise price (\$) | Options outstanding                    |                                                      |                                          | Options exercisable                    |                                          |
|---------------------|----------------------------------------|------------------------------------------------------|------------------------------------------|----------------------------------------|------------------------------------------|
|                     | Number<br>outstanding at<br>period end | Weighted<br>average<br>remaining<br>contractual life | Weighted<br>average<br>exercise<br>price | Number<br>exercisable at<br>period end | Weighted<br>average<br>exercise<br>price |
| \$0.18              | 1,100,000                              | 0.08                                                 | \$0.18                                   | 1,100,000                              | \$0.18                                   |
| \$0.16              | 12,800,000                             | 2.83                                                 | \$0.16                                   | 12,800,000                             | \$0.16                                   |

### D) Contributed surplus

The following table summarizes the changes in contributed surplus:

|                                  | September 30,<br>2018<br>(\$) | December 31,<br>2017<br>(\$) |
|----------------------------------|-------------------------------|------------------------------|
| Balance, beginning of year       | 11,870,862                    | 11,717,009                   |
| Share-based compensation expense | 41,417                        | 153,853                      |
| <b>Balance, end of period</b>    | <b>11,912,279</b>             | <b>11,870,862</b>            |

### E) Per common share amounts

|                                                                                      | Nine months ended September 30,<br>2018 | 2017               |
|--------------------------------------------------------------------------------------|-----------------------------------------|--------------------|
| <b>Weighted average number of common shares, end of period – basic &amp; diluted</b> | <b>149,600,768</b>                      | <b>110,861,042</b> |

As the Corporation has recorded a loss for the three and nine months ended September 30, 2018 and 2017, no addition is made to the basic weighted average number of common shares when calculating diluted weighted average number of common shares as the diluted per common share amounts are anti-dilutive. For the three and nine months ended September 30, 2018 and 2017, no options were in-the-money.

## NOTES (continued)

### F) Management of capital structure

The Corporation's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Corporation manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Corporation considers its capital structure to include shareholders' equity.

The Corporation expects to have adequate funding to provide for general operations with current working capital on hand, savings from a cost reduction program and from drawing down on the unutilized credit facility as described in Note 7. Refer also to note 2, *Going Concern*. The Corporation's future commitments are disclosed in note 11.

### 10. SUPPLEMENTAL CASH FLOW INFORMATION

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

|                                           | 2018<br>(\$)  | 2017<br>(\$)   |
|-------------------------------------------|---------------|----------------|
| Accounts receivable                       | 102,462       | (76,823)       |
| Prepaid expenses and deposits             | 27,927        | (90,721)       |
| Accounts payables and accrued liabilities | (100,159)     | 343,696        |
| <b>Change in non-cash working capital</b> | <b>30,230</b> | <b>176,152</b> |

### 11. COMMITMENTS AND CONTINGENCIES

#### Office lease

The Corporation has an office lease that requires monthly payments of \$8,288 and expires March 29, 2019.

During the nine months ended September 30, 2018, the Corporation expensed \$60,358 relating to operating leases (September 30, 2017 - \$85,942).

#### Drilling commitments

The Corporation has a commitment to drill one well on its existing leases by December 31, 2019 at a cost of approximately \$650,000.

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

- On or before March 30, 2019, one well must be spud

## NOTES (continued)

- Between March 31, 2019 and March 30, 2020, an additional two (2) wells must be spud
- Between March 31, 2020 and March 30, 2021, an additional two (2) wells must be spud

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

### Decommissioning obligations

Pursuant to the Inactive Well Compliance Program, the Corporation has identified 13 wells that will require some form of surface and/or downhole reclamation work by March 2019. The estimated cost of the work is \$90,000 and has been included in the current portion of decommissioning liabilities on the Consolidated Statement of Financial Position at September 30, 2018.

### Litigation

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

### Development Agreement

On May 9, 2018, the Corporation entered into a development agreement (the "Agreement") 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.

## 12. REVENUE

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

The Corporation sells its production pursuant to variable price contracts. The transaction price for variable price contracts is based on the commodity price and then adjusted for quality, location or other factors whereby each component of the pricing formula can be either fixed or variable depending on the contract terms. Revenue is recognized when a unit of production is delivered to the counterparty. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to the Corporation's efforts to transfer production and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable revenue is considered constrained.

## NOTES (continued)

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

### 13. EXPENSES BY NATURE

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

|                          | Three months ended<br>September 30 |                | Nine months ended<br>September 30 |                  |
|--------------------------|------------------------------------|----------------|-----------------------------------|------------------|
|                          | 2018                               | 2017           | 2018                              | 2017             |
|                          | (\$)                               | (\$)           | (\$)                              | (\$)             |
| Salaries and benefits    | 200,440                            | 241,680        | 669,512                           | 733,032          |
| Office costs             | 90,926                             | 71,177         | 252,188                           | 246,188          |
| Professional fees        | 55,288                             | 126,175        | 203,002                           | 283,561          |
| Corporate and regulatory | 2,677                              | 6,305          | 20,974                            | 22,799           |
|                          | <b>349,331</b>                     | <b>445,337</b> | <b>1,145,676</b>                  | <b>1,285,580</b> |

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

|                                             | Three months ended<br>September 30 |               | Nine months ended<br>September 30 |                |
|---------------------------------------------|------------------------------------|---------------|-----------------------------------|----------------|
|                                             | 2018                               | 2017          | 2018                              | 2017           |
|                                             | (\$)                               | (\$)          | (\$)                              | (\$)           |
| Interest on debentures and convertible note | 33,051                             | 22,500        | 80,870                            | 67,500         |
| Accretion of debentures                     | -                                  | 32,007        | -                                 | 94,150         |
|                                             | <b>33,051</b>                      | <b>54,507</b> | <b>80,870</b>                     | <b>161,650</b> |

### 14. RELATED PARTIES

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

Other related party transactions are as follows:

- The \$3,000,000 debenture issued to Kasten as part of the 2016 purchase consideration remains outstanding.
- Interest expense for the nine months ended September 30, 2018 related to Kasten debenture (note 6) of \$67,500 (2017 - \$107,243) was recorded in the Statement of Loss and Comprehensive Loss. At September 30, 2018, \$135,000 (December 31, 2017 - \$67,500) remains unpaid and is included in trade and other payables.
- The convertible note payable of \$500,000 is owing to a company controlled by a director. Interest expense for the six months ended June 30, 2018 of \$13,370 and a \$10,000 structuring fee was paid and recorded in the Statement of Loss and Comprehensive Loss.
- During 2017, the Corporation acquired drilling inventory at fair value from a supplier in which a director holds an interest. At September 30, 2018, \$153,986 (December 31, 2017 - \$294,265) is included in trade and other payables.

## NOTES (continued)

### ***Directors***

Robert J. Iverach  
Chairman of the Board  
Calgary, Alberta

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

Al Kroontje  
Businessman  
Calgary, Alberta

Michael Hibberd  
Businessman  
Calgary, Alberta

Paul Cheung  
Businessman  
Calgary, Alberta

### ***Officers***

Kelly Kimbley  
Chief Executive Officer and  
President

Robert Gillies  
Vice President Finance and  
Chief Financial Officer

Ulrich Wirth  
Vice-President Exploration

Omar El-Hajjar  
Vice-President Operations

David Orr  
Vice-President Business  
Development

### ***Corporate Head Office***

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

### ***Trustee and Transfer Agent***

Computershare Trust Corporation

### ***Solicitors***

Burstall Winger Zammit LLP

### ***Auditors***

PricewaterhouseCoopers LLP