STRATA-X ENERGY LTD.
(Unaudited)
Interim Condensed Consolidated Financial Statements
For the Three Months Ended 30 September 2016
(Expressed in U.S. Dollars)

NOTICE OF NO AUDITOR REVIEW OF
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, "Continuous Disclosure Obligations", Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the interim condensed consolidated financial statements have not been reviewed by an auditor.

The Company's external auditors, Collins Barrow Calgary LLP, have not performed a review of these interim condensed consolidated financial statements.

Chief Executive Officer

Chief Financial Officer

26 October 2016

STRATA-X ENERGY LTD.
(Unaudited)
Interim Condensed Consolidated Statement of Financial Position
30 September 2016
(Expressed in U.S. Dollars)

	30 September 2016	30 June 2016
ASSETS:		
Current assets:		
Cash and cash equivalents (Note 12)	$ 463,738	$ 744,042
Accounts receivable (Note 14)	150,308	78,156
Prepaids and other	7,980	7,980
Total current assets	622,027	830,178
Other assets (Note 5)	247,234	247,234
Exploration and evaluation assets (Note 6)	-	-
Property and equipment (Note 7)	12,372,994	12,438,165
Total assets	$ 13,242,254	$ 13,515,577
LIABILITIES:		
Current liabilities:		
Accounts payable and accrued liabilities (Note 14)	$ 288,752	$ 427,344
Deposits	54,903	-
Derivative warrants (Note 10)	164	886
Amounts due to related parties (Note 8)	152,711	157,002
Total current liabilities	496,529	585,232
Accrued liabilities (Note 14)	63,048	63,048
Decommissioning provisions (Note 9)	633,000	633,000
Total liabilities	1,192,577	1,281,280
SHAREHOLDERS' EQUITY:		
Share capital (Note 10)	35,968,547	35,968,547
Share based compensation reserve (Note 10)	1,497,855	1,471,989
Warrant reserve (Note 10)	1,009,486	1,009,486
Contributed surplus	22,066,879	22,066,879
Accumulated other comprehensive income	(823,115)	(821,967)
Deficit	(47,669,975)	(47,460,637)
Total shareholders' equity	12,049,677	12,234,297
Total liabilities and shareholders' equity	$ 13,242,254	$ 13,515,577

Going Concern (Note 1)
Commitments (Note 16)

Approved on behalf of the Board

Director Director

See accompanying notes

STRATA-X ENERGY LTD.
(Unaudited)
Interim Condensed Consolidated Statement of Loss and Comprehensive Loss
For the Three Months Ended 30 September 2016 and 30 September 2015
(Expressed in U.S. Dollars)

	Three months ended 30 September	
	2016	2015
Oil and gas revenue, net of royalties	$ 73,892	$ 86,453
Expenses		
Production and operating	65,275	70,960
General and administrative (Notes 6, 7 and 10)	145,312	311,362
Depletion, depreciation and amortization (Note 7)	67,597	83,387
Impairment of oil and gas properties (Note 6, 7 and 9)	5,903	-
Total expenses	284,086	465,709
Net operating loss	(210,194)	(379,256)
Gain on valuation of derivative liabilities (Note 10)	717	27,784
Net finance income (expense) (Note 12)	138	(34,378)
Net loss	(209,338)	(385,850)
Other comprehensive loss		
Exchange differences in translating foreign operations	(1,148)	(347)
Other comprehensive loss for the period	(1,148)	(347)
Comprehensive loss	$ (210,486)	$ (386,197)
Loss per common share, basic and dilluted (Note 11)	$ (0.00)	$ (0.00)

See accompanying notes

STRATA-X ENERGY LTD.
(Unaudited)
Interim Condensed Consolidated Statement of Changes in Equity
For the Three Months Ended 30 September 2016 and 30 September 2015
(Expressed in U.S. Dollars)

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	Share Capital	Share based Compensation Reserve	Warrants Reserve	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit (restated - Note 6 and 7)	Total
Balance, 1 July 2016	$ 35,968,547	$ 1,471,989	$ 1,009,486	$ 22,066,879	$ (821,967)	$ (47,460,637)	$ 12,234,297
Share-based compensation (Note 10)	-	25,866	-	-	-	-	25,866
Comprehensive income (loss)	-	-	-	-	(1,148)	(209,338)	(210,486)
Balance, 30 September 2016	$ 35,968,547	$ 1,497,855	$ 1,009,486	$ 22,066,879	$ (823,115)	$ (47,669,975)	$ 12,049,677

	Share Capital	Share based Compensation Reserve	Warrants Reserve	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit (restated - Note 6 and 7)	Total (restated - Note 6 and 7)
Balance, 1 July 2015	$ 34,934,188	$ 1,326,160	$ 1,009,486	$ 22,066,879	$ (822,008)	$ (45,018,898)	$ 13,495,807
Private placement, 10 August 2015 (Note 10)	516,834	-	-	-	-	-	516,834
Share-based compensation (Note 10)	-	26,813	-	-	-	-	26,813
Comprehensive income (loss)	-	-	-	-	(347)	(385,850)	(386,197)
Balance, 30 September 2015	$ 35,451,022	$ 1,352,973	$ 1,009,486	$ 22,066,879	$ (822,355)	$ (45,404,748)	$ 13,653,257

See accompanying notes

STRATA-X ENERGY LTD.
(Unaudited)
Interim Condensed Consolidated Statement of Cash Flows
For the Three Months Ended 30 September 2016 and 30 September 2015
(Expressed in U.S. Dollars)

	Three months ended 30 September	
	2016	2015
Cash and cash equivalents provided by (used in):		
Operating activities:		
Net loss for the period	$ (209,338)	$ (385,850)
Adjustments for:		
Depletion, depreciation and amortization	67,597	83,387
Accretion of decommissioning provisions	-	35,187
Share-based compensation not capitalized	25,866	26,813
Impairment of oil and gas properties	5,903	-
Gain on valuation of derivative liabilities	(717)	(27,784)
Operating cash flows before changes in non-cash working capital	(110,690)	(268,247)
Changes in non-cash working capital (Note 12)	(157,741)	(113,828)
Net cash used in operating activities:	(268,431)	(382,075)
Investing activities:		
Acquisition of exploration and evaluation assets	-	(201,513)
Acquisition of property and equipment	(6,429)	-
Net cash used in investing activities:	(6,429)	(201,513)
Financing activities:		
Proceeds from issuance of common stock	-	611,370
Payment of share issuance costs	-	(39,788)
Amounts (paid to) received from related parties	(4,291)	186,308
Net cash provided by financing activities:	(4,291)	757,890
Decrease in cash and cash equivalents	(279,151)	174,302
Cash and cash equivalents, beginning of year	744,042	957,410
Effect of exchange rate translation	(1,153)	(5,339)
Cash and cash equivalents, end of year	$ 463,738	$ 1,126,373

See accompanying notes

1. **Nature of Business and Going Concern**

Nature of Business

Strata-X Energy Ltd. (the "Company") was incorporated by Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act of Alberta on 18 June 2007. Through its subsidiaries, the Company's business activities are directed primarily toward the acquisition, exploration and development of oil and gas properties in the states of California and Illinois within the United States and in Western Australia, Australia. In October 2012, the Company announced a continuation into the province of British Columbia. The headquarters of the Company are located at 1550 Larimer Street, Suite #263, Denver, Colorado 80202.

Strata-X Energy, Ltd. is a publicly traded company on the TSX-Venture Exchange under the symbol "SXE.V", and on the Australian Securities Exchange under the symbol "ASX.SXA".

Going Concern

The interim condensed consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company incurred a net loss of $209,338 for the three months ended 30 September 2016 (2015 - $385,850) and has an accumulated deficit of $47,669,975 as of 30 September 2016 (2015 - $45,404,748 as restated – see note 7). In addition, the Company generated negative operating cash flows before changes in non-cash working capital of $110,690 (2015 - $268,247) for the three months ended 30 September 2016.

Management has been and continues to be active in seeking additional means to sustain the Company's financial position during the current industry downturn including but not limited to investigating potential partnership, merger and/or joint venture opportunities and acquiring and disposing of oil and natural gas properties. In addition, the Company continues to focus on minimal capital activities, reducing operating and general and administrative costs and enhancing operational efficiencies to preserve the Company's financial health and sustainability in a low commodity price environment. During the year ended 30 June 2016, the Company was successful in completing two private placements for gross proceeds of approximately $1,027,600. The proceeds of such offerings are utilized primarily towards funding operations and general and administrative expenses. Management anticipates the need for further financing and/or equity capital to fund future exploration and development of the Company's various oil and gas properties.

The Company cannot provide any assurance that sufficient cash flows will be generated from operating activities or that proceeds from other activities noted above will be able to sustain the Company's financial position.

The above-noted factors describe matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern. Management considers the Company a going concern and has prepared the condensed consolidated interim financial statements on a going concern basis.

2. Basis of Presentation

a) Statement of Compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the presentation of interim financial statements, including International Accounting Standards ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain financial information and disclosure normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed. The disclosure herein is incremental to the disclosure included in the annual financial statements. The interim condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended 30 June 2016.

The policies applied in these interim condensed consolidated financial statements are based on IFRS issued and outstanding as of 26 October 2016, the date of the Board of Directors approval of the statements. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending 30 June 2017 could result in restatement of these interim condensed consolidated financial statements.

b) Reporting entity

The interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Strata-X, Inc. domiciled in the United States and Strata-X Australia PTY Ltd. domiciled in Queensland, Australia.

c) Basis of Measurement

The interim condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and share-based compensation transactions, which were measured at fair value.

d) Functional and Presentation Currency

The interim condensed consolidated financial statements are presented in United States dollars. The parent Company's functional currency is the Canadian dollar. The functional currency of the Company's United States subsidiary and Australian subsidiary are United States and Australian dollars, respectively.

e) Management's Significant Accounting Judgments, Estimates and Assumptions

The timely preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the interim condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

2. **Basis of Presentation (continued)**

e) Management's Significant Accounting Judgments, Estimates and Assumptions (continued)

The following paragraphs discuss management's most critical assumptions, estimates and judgments in the preparation of the interim condensed consolidated financial statements.

Key sources of estimation uncertainty

Recorded amounts for impairment, depletion and depreciation of oil and gas properties, the provision for decommissioning liabilities and the recognition of deferred tax assets due to changes in expected future cash flows are based on estimates. These estimates include proved and probable reserves, production rates, future oil and natural gas prices, future development costs, remaining lives and periods of future benefits of the related assets and other relevant assumptions. The Company's reserve estimates are evaluated annually pursuant to the parameters and guidelines stipulated under *National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities*.

The calculation of decommissioning liabilities depends on estimates of current risk-free interest rates, future restoration and reclamation expenditures and the timing of those expenditures.

The valuation of accounts receivable is based on management's best estimate of the provision for doubtful accounts.

The amounts recorded relating to the fair value of stock options issued and fair values determined for share purchase warrants issued as part of a unit are based on estimates of the future volatility of the Company's share price, expected lives of the options or warrants, expected dividends, expected forfeiture rates, risk-free interest rates and other relevant assumptions.

The amounts recorded relating to the fair value of derivative liabilities associated with warrants issued is based on estimates of the future volatility of the Company's share price, estimated market price of the Company's shares at the grant date and subsequent measurement dates, the remaining expected lives of the derivative instruments, expected dividends and other relevant assumptions.

The allocation between the common share and share purchase warrant components of the units issued is calculated using the fair value method whereby the fair value of each component is determined. Estimates are required to determine the fair value of each component.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. The availability of tax pools and other deductions are subject to audit and interpretation of taxation authorities.

Critical judgments in applying accounting policies

The decision to transfer exploration and evaluation assets to property and equipment is based on management's determination of the area's technical feasibility and commercial viability and is dependent upon the discovery of economically recoverable reserves, which, in turn, is dependent on future oil and natural gas prices, future capital expenditures and environmental and regulatory restrictions. The Company assesses whether there is indication of impairment for exploration and evaluation assets each reporting period and upon transfer to property and equipment.

2. **Basis of Presentation (continued)**

e) Management's Significant Accounting Judgments, Estimates and Assumptions (continued)

The determination of Cash Generating Units ("CGUs") requires judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash flows from other assets or groups of assets. CGUs are determined primarily by similar geological structure, shared infrastructure and geographical proximity.

For the purposes of depletion, the Company allocates its oil and natural gas assets to components with similar lives and depletion methods. The groupings of assets are subject to management's judgment and are performed on the basis of geographical proximity and similar reserve life.

The Company is party to various joint interest, operating and other agreements in conjunction with its oil and gas activities. The revenues and expenses allocated between partners are governed by the terms of these agreements and are subject to interpretation and audit by the appropriate parties.

Judgments are required to assess when impairment indicators, or impairment reversal indicators, exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, recent land sales, future costs, discount rates, and other relevant assumptions.

Judgments are made by management to determine the probability of the Company utilizing certain tax pools and assets which, in turn, is dependent on estimates of proved and probable reserves, production rates, future oil and natural gas prices and tax rates.

3. **Significant Accounting Policies**

The interim condensed consolidated financial statements have been prepared following the same accounting policies and methods of computation as the Company's 30 June 2016 annual financial statements. The Company continues to assess the impact of adopting the pronouncements of the IASB as described in the Company's 30 June 2016 annual financial statements.

(Expressed in U.S. Dollars)

4. **Segment Reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenditures. Segment results, assets and capital expenditures include items directly attributable to a segment as well as those that can be allocated on a reasonable basis, and for which discrete financial information is available. All geographic segments are regularly reviewed by management in order to assess performance and allocate resources.

The Company operates in one industry segment, being the oil and gas industry, in several geographic locations. Segmented information in USD by geographic location is as follows:

As at and for the three months ended 30 September 2016:

	Canada	United States	Australia	Total
Revenues	-	73,892	-	73,892
Net Loss	(58,377)	(149,153)	(1,808)	(209,338)
Non-current Assets	-	12,620,228	-	12,620,228
Total Assets	-	13,212,662	29,592	13,242,254
Total Liabilities	357	1,148,308	43,912	1,192,577

As at and for the three months ended 30 September 2015 (restated – note 7):

	Canada	United States	Australia	Total
Revenues	-	86,453	-	86,453
Net Loss	(102,453)	(282,425)	(972)	(385,850)
Non-current Assets	-	14,815,271	-	14,815,271
Total Assets	74,059	15,897,978	55,604	16,027,641
Total Liabilities	176,337	2,113,967	92,815	2,383,119

5. **Other Assets**

Other assets consist of restricted amounts held by certificates of deposit and amounts held in interest-bearing accounts at state banks as the Company is required by state agencies in California, Texas and North Dakota to use the funds for potential future remediation of certain properties in these states. The amounts have been classified as non-current as the Company does not expect to complete the remediation in the next 12 months.

(Expressed in U.S. Dollars)

6. **Exploration and Evaluation Assets**

	Three months ended 30 September 2016	Year ended 30 June 2016
Balance, beginning of year	**$ -**	$ 1,907,780
Additions	**-**	126,069
Impairment loss	**-**	(2,033,849)
Balance, end of year	**$ -**	**$ -**

During the year ended 30 June 2016, the Company recorded an impairment loss of $493,000 related to properties located in California, $1,380,849 related to properties located in North Dakota and $105,000 related to properties in Wyoming as management determined that the carrying values of these projects exceeded their recoverable amount.

Capitalized general and administrative expenses that comprise additions to exploration and evaluation assets above for the year ended 30 June 2016 are $3,333.

(Expressed in U.S. Dollars)

7. Property and Equipment

Cost

	Balance at 30 June 2015 (restated)	Additions	Dispositions	Balance at 30 June 2016	Additions	Dispositions	Balance at 30 September 2016
Oil and gas properties	$ 12,582,358	$ 763,455	$ (248,590)	$ 13,097,223	$ 8,329	$ -	$ 13,105,552
Computer equipment and software	19,032	-	-	19,032	-	-	19,032
	$ 12,601,390	$ 763,455	$ (248,590)	$ 13,116,255	$ 8,329	$ -	$ 13,124,584

Accumulated Depletion, Depreciation, Amortization and Impairment

	Balance at 30 June 2015 (restated)	Additions	Impairment Loss	Balance at 30 June 2016	Additions	Impairment Loss	Balance at 30 September 2016
Oil and gas properties	$ 269,725	$ 200,159	$ 195,000	$ 664,884	$ 66,707	$ 5,903	$ 737,494
Computer equipment and software	10,533	2,673	-	13,206	890	-	14,096
	$ 280,258	$ 202,832	$ 195,000	$ 678,090	$ 67,597	$ 5,903	$ 751,590

Net Book Value

	Balance at 30 June 2016	Balance at 30 September 2016
Oil and gas properties	$ 12,432,339	$ 12,368,058
Computer equipment and software	5,826	4,936
	$ 12,438,165	$ 12,372,994

Capitalized general and administrative expenses that comprise additions to property and equipment above for the three months ended 30 September 2016 and the year ended 30 June 2016 are $Nil and $286,329, respectively.

During the year ended 30 June 2016, the Company disposed of its working interest in a property located in California for total cash proceeds of $200,000 and the settlement of $63,000 of net amounts owed to the purchaser, for a total gain on sale of $63,000.

7. **Property and Equipment (continued)**

For the year ended 30 June 2015, an impairment loss of $5,202,993 was recognized related to properties initially classified as exploration and evaluation assets located in Illinois. Subsequent to 30 June 2015, management determined that the assets in Illinois originally recorded as exploration and evaluation assets at 30 June 2015 of $4,909,683 and additional assets in California of $464,317 had reached technical feasibility as proved and probable reserves were assigned by the Company's external reserve evaluator at 30 June 2015. Consequently, the carrying value of exploration and evaluation assets was reduced by $5,374,000 with a corresponding increase to property and equipment. In addition, the Company recalculated the recoverable amount of the specific Illinois and California CGUs as the initial impairment calculations performed used before tax future net cash flows from oil and natural gas from proved reserves only. The adjustment to the recoverable amounts to include before tax future net cash flows from oil and natural gas proved and probable reserves resulted in no impairment loss to be recognized for the year ended 30 June 2015. Consequently, the impairment loss of $5,202,993 that was initially recorded for the year ended 30 June 2015 was reversed in its entirety. As a result, the value of exploration and evaluation assets initially reflected in the interim condensed consolidated financial statements as of 30 September 2015 was restated to $2,332,293, the value of property and equipment initially reflected as of 30 September 2015 was restated to $12,238,635 and the accumulated deficit initially reflected as of 30 September 2015 was restated to $45,404,748.

8. **Amounts Due to Related Parties**

Amounts due to companies controlled by directors of the Company are unsecured, bear no interest and have no specific terms of repayment. See further discussion of related party amounts in Note 13.

(Expressed in U.S. Dollars)

9. **Decommissioning Provisions**

The future decommissioning liabilities are determined by management and are based on the Company's net ownership interest, the estimated future costs to reclaim and abandon the wells, and the estimated timing of when the costs will be incurred.

	Three months ended 30 September 2016	Year ended 30 June 2016
Balance, beginning of year	**$ 633,000**	$ 993,683
Change in discount rate and timing of cash flows	**-**	194,131
Additions	**-**	25,000
Dispositions	**-**	(592,185)
Accretion expense	**-**	12,371
Balance, end of year	**$ 633,000**	**$ 633,000**

The Company has calculated the fair value of decommissioning provisions using a discount rate of 1.8% (2015 – 2.4% to 4.8%). The estimated undiscounted future cash flows to settle decommissioning provisions are $800,000 (30 June 2016 - $800,000) and are expected to be realized over a period defined as the remaining useful life in the Company's most recent reserve report which is approximately 15 to 24 years.

The fair value of certain oil and natural gas properties of the Company is $nil. Accordingly, the change in discount rate and estimates related to these properties for the year ending 30 June 2016 was recorded as an adjustment to impairment loss of $83,059.

During the year ended 30 June 2016, the Company was released from future decommissioning obligations related to property located in Texas with an asset value of $Nil. As a result, the provision amount of $543,595 related to this property was reversed and reflected as a gain on the statement of loss and comprehensive loss for the year ended 30 June 2016.

(Expressed in U.S. Dollars)

10. **Share Capital**

Authorized:

Unlimited number of common shares without nominal or par value
Unlimited number of preferred shares without nominal or par value

The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares and determine the designation, rights, privileges, restrictions and conditions attached to each series of shares.

Issued and outstanding:

	Number	Amount
Balance at 30 June 2015	156,584,977	$ 34,934,188
Private placement, 10 August 2015	10,310,250	556,622
Share issuance costs		(39,788)
Private placement, 12 November 2015	7,037,500	392,112
Shares issued on debt conversion	2,392,858	125,413
Balance at 30 June 2016 and 30 September 2016	176,325,585	$ 35,968,547

Common Stock Offerings

On 10 August 2015, the Company completed a private placement of 10,310,250 units. Each unit consists of one CDI and one half of a warrant. Each CDI is equivalent to and exchangeable for one common share of stock of the Company. Each warrant is exercisable into one CDI, or common share, at an exercise price of AUD$0.12 per share. The warrants expire on 31 January 2017. The gross proceeds of CDN$ 798,134 (US$611,363) and CDN$71,472 (US$54,741) were allocated to the common shares and warrants, respectively. The fair value of the 5,155,125 warrants on 10 August 2015 of CDN $0.02 per warrant was determined using the Black Scholes model using the following assumptions: share price of AUD $0.065; expected dividend rate of 0%; expected volatility of 64%; risk free rate of 0.65%; and expected life of 1.5 years.

On 12 November 2015, the Company completed a private placement of 7,037,500 units. Each unit consists of one CDI and one half of a warrant. Each CDI is equivalent to and exchangeable for one common share of the Company. Each warrant is exercisable into one CDI, or common share, at an exercise price of AUD$0.12 per share. The warrants expire on 31 January 2017. The gross proceeds of CDN$ 546,791 (US$416,232) and CDN$32,104 (US$24,120) were allocated to the common shares and warrants, respectively. The fair value of the 3,518,750 warrants on 12 November 2015 of CDN $0.01 per warrant was determined using the Black Scholes model using the following assumptions: expected dividend rate of 0%; expected volatility of 73%; risk free rate of 0.41%; and expected life of 1.2 years.

10. **Share Capital (continued)**

Conversion of Debt

On 16 November 2015, the Company issued 2,392,858 common shares to certain directors and one past director of the Company in consideration for settlement of amounts owing to related parties of CDN$167,500 (USD $125,413) at a deemed price of CDN$0.07 per share. No gain or loss was determined as the fair value of the consideration was equal to the debt settlement amounts.

Warrants

Warrants have been classified as a derivative financial liability since the exercise price of the warrants is fixed in Canadian dollars, but the functional currency of the Company is US dollars.

The activity related to the derivative financial liability associated with the warrants is as follows:

	Three months ended 30 September 2016	Year ended 30 June 2016
Balance, beginning of year	**$ 886**	$ 26,456
Warrants issued	**-**	78,861
Fair value adjustments	**(717)**	(113,587)
Foreign exchange (gain) loss	**(5)**	9,156
Balance, end of year	**$ 164**	**$ 886**

The fair value of the warrants was determined using the following weighted average assumptions:

	30 September 2016	30 June 2016
Risk-free rate	0.58%	0.65%
Expected life (years)	0.2	0.5
Expected volatility	81.5%	79.9%
Dividend yield	0.0%	0.0%
Forfeiture rate	0.0%	0.0%
Share price (AUD)	$0.03	$0.03

Expected volatility was determined based on the Company's historical volatility and a comparison to other companies in the business of exploration for and development of production of oil and natural gas. A forfeiture rate of 0% was used as all warrants vested immediately.

(Expressed in U.S. Dollars)

10. **Share Capital (continued)**

Warrants (continued)

Activity related to the number of warrants outstanding and exercisable for the Company for the three months ended 30 September 2016 and the year ended 30 June 2016 is as follows:

	Three months ended 30 September 2016			Year ended 30 June 2016		
	Number	Weighted Average Exercise Price	Currency	Number	Weighted Average Exercise Price	Currency
Balance, beginning of year	18,498,878	$ 0.32		11,840,386	$ 0.48	
Warrants issued in private placement 10 August 2015	-	-		5,155,125	0.12	AUD
Warrants issued in private placement 12 November 2015	-	-		3,518,750	0.12	AUD
Expiration of warrants	-	-		(2,015,383)	0.40	CDN
Balance, end of year	18,498,878	$ 0.32		18,498,878	$ 0.32	

The following table summarizes information on warrants outstanding at 30 September 2016:

Exercise Price	Currency	Number Outstanding	Weighted Average Contractual Life (years)
$ 0.50	CDN	8,993,300	0.08
$ 0.38	CDN	66,431	0.08
$ 0.50	AUD	765,272	0.24
$ 0.12	AUD	8,673,875	0.34
		18,498,878	

(Expressed in U.S. Dollars)

10. **Share Capital (continued)**

Stock Option Plan

The Company has established a stock option plan for the benefit of directors, officers and technical consultants of the Company.

Pursuant to the Stock Option Plan, 10% of the issued and outstanding common shares have been reserved for options to be granted to the directors and officers of the Company. The vesting period and the exercise price of the options shall be determined by the Board of Directors. The period during which an option is exercisable shall be determined by the Board of Directors at the time of grant, but subject to the rules of the stock exchange or other applicable regulatory body.

The following table summarizes the activity of the stock options. The exercise prices of the various issuances of options over time are in Canadian and Australian dollars.

	Three months ended 30 September 2016		Year ended 30 June 2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	14,870,000	$ 0.20	6,570,000	$ 0.33
Granted	-	-	9,400,000	0.12
Expired	-	-	(1,100,000)	0.31
Outstanding, end of year	14,870,000	$ 0.20	14,870,000	$ 0.20
Exercisable, end of year	8,582,500	$ 0.25	7,532,500	$ 0.26

The Company granted 4,400,000 options on 11 September 2015 that vest in 25% increments every six months beginning on 11 March 2016 with the final 25% increment of options vesting on 11 September 2017. The options expire in 5 years from the date of grant.

The Company granted 5,000,000 options on 19 October 2015 that vest in 25% increments every six months beginning on 19 April 2016 with the final 25% increment of options vesting on 19 October 2017. The options granted expire in 5 years from date of grant.

(Expressed in U.S. Dollars)

10. **Share Capital (continued)**

Stock Option Plan (continued)

The following table summarizes information on stock options outstanding and exercisable at 30 September 2016:

Exercise Price	Currency	Number Outstanding	Number Exercisable	Weighted Average Contractual Life (years)
$ 0.30	CDN	3,920,000	3,482,500	4.29
$ 0.34	CDN	850,000	850,000	5.98
$ 0.41	CDN	750,000	750,000	2.06
$ 0.50	AUD	50,000	50,000	0.20
$ 0.50	CDN	100,000	100,000	1.55
$ 0.12	AUD	9,200,000	3,350,000	3.88
		14,870,000	8,582,500	

The Company uses the Black-Scholes option pricing model to value the options at each grant date under the following weighted average assumptions:

	30 June 2016
Exercise price	$0.12 AUD
Grant date fair value	$0.07
Expected dividend rate	0%
Expected volatility	58%
Risk-free interest rate	0.84%
Expected life of options (years)	4.88
Forfeiture rate	0.0%
Share price on grant date	$0.12 AUD

The fair value recognized for stock options during the three months ended 30 September 2016 is $25,866 (year ended 30 June 2016 - $145,829).

Expected volatility was determined based on the Company’s historical volatility and a comparison to other companies in the business of exploration for and development of production of oil and natural gas. A forfeiture rate of 0% was used when recording share-based compensation as it is expected that all officers, directors, employees and consultants will continue with the Company over the vesting period.

(Expressed in U.S. Dollars)

10. **Share Capital (continued)**

Stock Option Plan (continued)

During the three months ended 30 September 2016, the Company expensed the fair value recognized for stock options of $25,866 as general and administrative costs. During the year ended 30 June 2016, the Company capitalized $90,829 of share-based compensation expense to property and equipment and $55,000 to exploration and evaluation assets with a corresponding adjustment to share based compensation reserve.

11. **Net Loss per Common Share**

The basic net loss per common share is based on the weighted average number of common shares outstanding for the three months ended 30 September 2016 and 30 September 2015 of 176,325,585 and 162,300,442, respectively. All stock options and warrants are anti-dilutive and have not been included in the weighted average number of common shares for the calculation of diluted loss per common share.

12. **Supplemental Cash Flow Information**

(a) Changes in non-cash working capital items:

	Three months ended 30 September	
	2016	2015
Accounts receivable	$ (72,152)	$ 24,845
Prepaids and other	-	-
Accounts payable and accrued liabilities	(140,492)	(138,673)
Deposits	54,903	-
	$ (157,741)	$ (113,828)

Non-cash transactions excluded from the statements of cash flows (note 7 and 10)

(b) Cash and cash equivalents comprise:

	30 September 2016	30 June 2016
Balances with banks in current accounts	$ 11,615	$ 92,010
Money market savings account	452,123	652,032
	$ 463,738	$ 744,042

(c) Net finance expense for the three months ended 30 September 2016 includes $Nil in accretion expense (note 9) (2015 - $35,187) net of finance income of $138 (2015 - $809)

13. **Related Party Transactions**

The Company utilizes the services of an outside firm in which the majority owner of the firm is a member of the board of directors of the Company. The contract with this firm for ongoing accounting, reporting and tax compliance services calls for monthly retainer payments of approximately $5,400. During the three months ended 30 September 2016, the Company incurred approximately $16,300 (2015 - $16,000) in costs payable to the outside firm for accounting services. Approximately $9,600 (2015 - $13,000) is included in general and administrative expenses. At 30 September 2016, amounts owing and included in due to related parties is $Nil (2015 – $Nil)

On 16 November 2015, the Company issued common shares to certain directors, including one past director of the Company in consideration of settlement of debt as discussed in Note 10.

On 6 April 2015, the Company attempted to farm-out its aggregate 50% working interest in a property located in Texas and was successful in placing approximately a 27% working interest. The Company entered into a number of farm-out agreements relative to this property including two with officers of the Company, being the Company's Chief Executive Officer and its CFO. The officers collectively acquired the right to earn an aggregate 19% working interest in the property, with arm's length third parties acquiring the balance available. The farm-outs to the officers were approved by the board of directors and the terms of the agreements are identical. The Company will retain a 5.4% working interest after payout in the project.

Total compensation paid to key management personnel, including the related parties identified above, as well as incentive stock compensation related to the granting and vesting of stock options during the period, was approximately $94,400 (2015 - $82,300) for the three months ended 30 September 2016.

Total salary expenses for employees, directors and management included in general and administrative expenses on the statement of loss for the three months ended 30 September 2016 is $60,500 (2015 - $138,700)

14. **Financial Instruments**

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

14. **Financial Instruments (continued)**

The following provide an analysis of financial instruments that are measured at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are not observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The carrying value of accounts receivable, accounts payable and accrued liabilities and amounts due to related parties included in the statement of financial position approximate fair value due to the short-term nature of those instruments and the manner in which they are settled. The fair value of these instruments is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

As at 30 September 2016, the Company had only cash and cash equivalents and other assets as “fair value through profit or loss”, measured at fair value – Level 1; and derivative warrants measured at fair value – Level 3. In addition, the Company used a Level 3 measure in determining the recoverable amount of property and equipment at 30 September 2016.

Financial risk management

The Company's activities are exposed to a variety of financial risks: interest rate risk, market risk, credit risk, liquidity risk, commodity price risk and foreign exchange risk. The Company's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Company's financial results. Risk management is carried out by financial management in conjunction with overall corporate governance. There were no changes to the Company’s risk management policies or processes during the three months ended 30 September 2016.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company’s ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economy. The Company continues to monitor its actual and forecast cash flows to review whether there are adequate reserves to meet its financial obligations on an ongoing basis. As at 30 September 2016, the Company had a positive working capital of approximately $125,500. Continuing weak commodity prices experienced during 2016 have negatively impacted earnings and operating cash flow for the period.

The Company continues to focus on minimal capital activities, reducing operating and general and administrative costs and enhancing operational efficiencies to preserve the Company’s financial health and sustainability in a low commodity price environment. The Company cannot provide any assurance that sufficient cash flows will be generated from operating activities or that proceeds from other activities will be able to provide adequate working capital to sustain operations for the long-term.

(Expressed in U.S. Dollars)

14. **Financial Instruments (continued)**

Liquidity risk (continued)

The Company's non-derivative financial liabilities on the statement of financial position consist of the following contractual maturities:

	Less than a year	After 5 years
Accounts payable and accrued liabilities	$ 288,752	$ -
Deposits	54,903	-
Amounts due to related parties	152,711	-
Accrued liabilities	-	63,048
	$ 496,366	$ 63,048

The amounts recorded for accrued liabilities relate to amounts received from joint interest partners for their share of future remediation of oil and natural gas interests (Note 5).

Market risk

The Company's exposure to financial market risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest rate risk, foreign exchange risk and commodity price risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate due to changes in market interest rates.

The Company is exposed to interest rate risk arising from fluctuations in interest rates received on its cash and cash equivalents and other assets. Management does not believe this risk is significant.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate as a result of a change in foreign exchange rates. The Company cannot give any assurance that any future movements in the exchange rates of the U.S. dollar against the Canadian dollar and the Australian dollar will not adversely affect the consolidated financial statements. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

As at 30 September 2016, $1,067 of accounts receivable, $193 of accounts payable and $164 of derivative warrants are exposed to the Canadian dollar. As at 30 September 2016, $29,592 of cash and cash equivalents and $43,912 of accounts payable are exposed to the Australian dollar. Management does not believe this risk is significant and the sensitivity to fluctuations in foreign exchange rate changes in minimal.

14. Financial Instruments (continued)

Commodity price risk

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. The nature of the Company's operations results in exposure to fluctuations in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar, but also world economic events that dictate the levels of supply and demand. The Company does not use derivative instruments to reduce its exposure to commodity price risk.

Credit risk

The Company's exposure to credit risk relates to cash and cash equivalents, accounts receivables and other assets and arises from the possibility that the third party does not satisfy its contractual obligations. The Company minimizes its exposure to credit risk by keeping the majority of its cash and cash equivalents with major chartered banks. The Company performs continuous evaluation of its accounts receivables and records an allowance for doubtful accounts when determined necessary. The Company's maximum exposure to credit risk is equal to the carrying value of these financial assets being $861,280 at 30 September 2016 (2015 - $1,440,732). It is management's opinion that the level of credit risk is low due to the credit-worthiness of the counterparties involved and that its counterparties currently have the financial capacity to settle outstanding obligations in the normal course of business.

As of 30 September 2016, the Company recorded an allowance for doubtful accounts of $155,951 (2015 - $156,090) related to an amount due from a project operator that was greater than 90 days outstanding. Included in accounts receivable is an amount past due of $78,372.

15. Capital Management

The Company's objective when managing capital is to maintain adequate cash resources to support planned activities, which include the acquisition and development of oil and gas properties. The Company includes shareholders' equity in the definition of capital. As noted above, the Company continues to focus on activities that utilize minimal capital based on the current overall capital constraints the Company is experiencing as a result of the sustained low commodity price environment.

In managing capital, the Company estimates its future cash requirements by preparing a budget. The budget establishes the activities for the upcoming year and estimates the costs associated with these activities.

Historically, funding for the Company's plan was primarily managed through the issuance of additional common shares and through its commercial activities. There are no assurances that funds will be made available to the Company when required. There were no changes in the Company's approach to capital management during the year.

(Expressed in U.S. Dollars)

15. **Capital Management (continued)**

The Company is not subject to externally imposed capital requirements.

Total capital managed is as follows:

	30 September 2016	30 June 2016
Shareholders' equity	**$ 12,049,677**	**$ 12,234,297**

Total capital managed decreased for the three months ended 30 September 2016 due to a continued decline in oil and gas revenues and an overall use of cash in operating activities for the period.

16. **Commitments**

The Company entered into a rental agreement for office premises to 31 October 2017 for a total remaining obligation of approximately $32,500 excluding operating costs.