STRATA-X ENERGY LTD.
Consolidated Financial Statements
Years Ended 30 June 2017 and 2016
(Expressed in U.S. Dollars)

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Auditor's Independence Declaration to the Directors of
Strata-X Energy Ltd.

As lead auditor for the audit of Strata-X Energy Ltd. for the year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Strata-X Energy Ltd. and the entities it controlled during the financial year.

COLLINS BARROW CALGARY LLP

Christin J. Giebelhaus
Partner

September 20, 2017

STRATA-X ENERGY LTD.
Consolidated Statements of Financial Position
30 June 2017 and 30 June 2016
(Expressed in U.S. Dollars)

	2017	2016
ASSETS:		
Current assets:		
Cash and cash equivalents (Note 12)	$ 975,442	$ 744,042
Accounts receivable (Note 16)	60,336	78,156
Prepaids and other	11,553	7,980
Total current assets	1,047,331	830,178
Other assets (Note 5)	247,234	247,234
Exploration and evaluation assets (Note 6 and 18)	64,678	-
Property and equipment (Note 7)	12,092,123	12,438,165
Total assets	$ 13,451,366	$ 13,515,577
LIABILITIES:		
Current liabilities:		
Accounts payable and accrued liabilities (Note 16)	$ 140,016	$ 427,344
Derivative warrants (Note 10)	-	886
Amounts due to related parties (Note 8)	67,057	157,002
Total current liabilities	207,073	585,232
Accrued liabilities (Note 16)	63,048	63,048
Decommissioning provisions (Note 9)	513,150	633,000
Total liabilities	783,271	1,281,280
SHAREHOLDERS' EQUITY:		
Share capital (Note 10)	36,955,438	35,968,547
Share based compensation reserve (Note 10)	1,531,908	1,471,989
Warrant reserve (Note 10)	1,102,488	1,009,486
Contributed surplus	22,066,879	22,066,879
Accumulated other comprehensive income (loss)	(821,829)	(821,967)
Deficit	(48,166,789)	(47,460,637)
Total shareholders' equity	12,668,095	12,234,297
Total liabilities and shareholders' equity	$ 13,451,366	$ 13,515,577

Nature of Business and Going Concern (Note 1)
Commitments (Note 18)

See accompanying notes

Approved on behalf of the Board

Director Director

STRATA-X ENERGY LTD.
Consolidated Statements of Loss and Comprehensive Loss
For the Years Ended 30 June 2017 and 30 June 2016
(Expressed in U.S. Dollars)

		2017		2016
Oil and gas revenue, net of royalties (Note 14)	$	167,264	$	134,243
Expenses				
Production and operating		156,038		190,382
General and administrative (Notes 6, 7 and 10)		663,698		581,055
Depletion, depreciation and amortization (Note 7)		292,251		202,832
Impairment of oil and gas properties (Note 6, 7 and 9)		15,000		2,311,908
Total expenses		1,126,987		3,286,177
Net operating loss		(959,723)		(3,151,934)
Other income (Note 16)		212,798		-
Gain on valuation of derivative liabilities (Note 10)		887		113,587
Gain on settlement of decommissioning liability (Note 9)		41,976		543,595
Gain on disposal of assets (Note 7)		-		63,000
Net finance expense (Note 12(c))		(2,090)		(9,987)
Loss for the year		(706,152)		(2,441,739)
Other comprehensive income				
Exchange differences in translating foreign operations		138		41
Other comprehensive income for the year		138		41
Net loss and comprehensive income for the year	$	(706,014)	$	(2,441,698)
Loss per common share, basic and dilluted (Note 11)	$	(0.01)	$	(0.04)

See accompanying notes

STRATA-X ENERGY LTD.

Consolidated Statements of Changes in Shareholders' Equity
Years Ended 30 June 2017 and 30 June 2016
(Expressed in U.S. Dollars)

	Share Capital	Share based Compensation Reserve	Warrants Reserve	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	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
Private placement, 2 December 2016 (Note 10)	320,262	-	-	-	-	-	320,262
Private placement, 22 December 2016 (Note 10)	759,631	-	-	-	-	-	759,631
Share-based compensation (Note 10)	-	59,919	-	-	-	-	59,919
Finder warrants issued (Note 10)	(93,002)	-	93,002	-	-	-	-
Net loss and comprehensive income	-	-	-	-	138	(706,152)	(706,014)
Balance, 30 June 2017	$ 36,955,438	$ 1,531,908	$ 1,102,488	$ 22,066,879	$ (821,829)	$ (48,166,789)	$ 12,668,095

	Share Capital	Share based Compensation Reserve	Warrants Reserve	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
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
Private placement, 12 November 2015 (Note 10)	392,112	-	-	-	-	-	392,112
Shares issued on debt conversion (Note 10)	125,413	-	-	-	-	-	125,413
Share-based compensation (Notes 6, 7 and 10)	-	145,829	-	-	-	-	145,829
Net loss and comprehensive income	-	-	-	-	41	(2,441,739)	(2,441,698)
Balance, 30 June 2016	$ 35,968,547	$ 1,471,989	$ 1,009,486	$ 22,066,879	$ (821,967)	$ (47,460,637)	$ 12,234,297

See accompanying notes

STRATA-X ENERGY LTD.
Consolidated Statements of Cash Flows
For the Years Ended 30 June 2017 and 30 June 2016
(Expressed in U.S. Dollars)

	2017	2016
Cash and cash equivalents provided by (used in):		
Operating activities:		
Loss for the year	$ (706,152)	$ (2,441,739)
Adjustments for:		
Depletion, depreciation and amortization	292,251	202,832
Accretion expense	6,526	12,371
Share-based compensation expense	59,919	-
Other income	(212,798)	-
Impairment of oil and gas properties	15,000	2,311,908
Unrealized loss on foreign exchange	3,287	4,938
Gain on reversal of decommissioning liability	(41,976)	(543,595)
Gain on disposal of assets	-	(63,000)
Gain on valuation of derivative liabilities	(887)	(113,587)
Operating cash flows before changes in non-cash working capital	(584,830)	(629,872)
Cash abandonment expenditures	(29,400)	-
Changes in non-cash working capital (Note 12)	(148,716)	(165,048)
Net cash used in operating activities:	(762,946)	(794,920)
Investing activities:		
Exploration and evaluation asset expenditures	(64,678)	(71,069)
Proceeds from sale of oil and gas properties	-	200,000
Property and equipment expenditures	(16,209)	(536,554)
Net cash used in investing activities:	(80,887)	(407,623)
Financing activities:		
Proceeds from issuance of common stock	1,132,322	1,027,595
Payment of share issuance costs	(52,429)	(39,788)
Net cash provided by financing activities:	1,079,893	987,807
Increase (decrease) in cash and cash equivalents	236,060	(214,736)
Cash and cash equivalents, beginning of year	744,042	957,410
Effect of exchange rate translation	(4,660)	1,368
Cash and cash equivalents, end of year	$ 975,442	$ 744,042

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 the Republic of Botswana in Africa. The headquarters of the Company is 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". Effective 23 November 2016, a 3 for 1 share consolidation was approved by the shareholders of the Company. These financial results are presented on the basis of the post-consolidated shares outstanding. All share, option, warrant and per share comparative numbers have been retroactively restated to reflect the share consolidation (Note 10).

Going Concern

The consolidated financial statements have been prepared on a going concern basis, 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 $706,152 for the year ended 30 June 2017 (2016 - $2,441,739) and has an accumulated deficit of $48,166,789 as of 30 June 2017 (2016 - $47,460,637). In addition, the Company generated negative operating cash flows before changes in non-cash working capital of $584,830 (2016 - $629,872) for the year ended 30 June 2017.

Management has been and continues to be active in seeking additional means to sustain the Company's financial position during the current economic environment 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 moving forward in Stage 1 of the CSG Project (Note 18(b)). During the two years ended 30 June 2017, the Company was successful in completing three private placements for gross proceeds of approximately $2,160,000. The proceeds of such offerings are utilized primarily towards funding operations, general and administrative expenses and exploration and development activities. Management anticipates the need for further financing and/or equity funding to fund future exploration and development of the Company's various oil and gas properties including the CSG Project (Note 18(b)).

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 consolidated financial statements on a going concern basis.

2. Basis of Presentation

a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the "International Accounting Standards Board" ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of 20 September 2017, the date of the Board of Directors approval of the statements.

b) Reporting Entity

The 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. In January 2017, Rhino CBM (Proprietary) Limited ("Rhino") was incorporated in accordance with the Companies Act of the Republic of Botswana, Africa, and is a wholly-owned subsidiary of Strata-X, Australia PTY Ltd.

c) Basis of Measurement

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

d) Functional and Presentation Currency

The 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. The functional currency of Rhino, a wholly-owned subsidiary of the Company's Australian subsidiary, is the Botswana Pula.

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 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 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 and finder warrants 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 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 application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events or circumstances and the determination of the area's technical feasibility and commercial viability, which, in turn, is dependent on future oil and natural gas prices, future capital expenditures and environmental and regulatory restrictions.

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. **Summary of Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, substantive potential voting rights are taken into consideration. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing consolidated financial statements. The consolidated accounts are prepared using uniform accounting policies.

3. **Summary of Significant Accounting Policies (continued)**

Cash and Cash Equivalents

Cash and cash equivalents consist of amounts on deposit with banks, term deposits and other similar short-term highly liquid investments with maturities of 90 days or less at the date of issue.

Exploration and Evaluation Assets

Pre-license expenditures incurred before the Company has obtained legal rights to explore an area are expensed.

Exploration and evaluation costs include the costs of acquiring licenses, exploratory drilling, geological and geophysical activities, acquisition of mineral and surface rights and technical studies and general and administrative and overhead directly related to exploration activities. Exploration and evaluation costs are capitalized as exploration and evaluation assets and accumulated in cost centres by exploration area when the technical feasibility and commercial viability of extracting oil and natural gas reserves have yet to be determined. Exploration and evaluation assets are measured at cost and are not depleted or depreciated until after these assets are reclassified to property and equipment. Exploration and evaluation assets, net of any impairment loss, are transferred to property and equipment when proved and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved and/or probable reserves have been discovered.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Exploration and evaluation assets are also assessed for impairment upon their reclassification to property and equipment. When an exploration and evaluation asset is determined not to be technically feasible or commercially viable, or the Company decides not to continue with its activity, the unrecoverable exploration and evaluation costs are charged to profit or loss as impairment of oil and gas properties.

Exchanges, swaps or farm-outs that involve only exploration and evaluation assets are accounted for at cost. Any gains or losses from the divestiture of exploration and evaluation assets are recognized in profit or loss.

Property and Equipment

a) Oil and Gas Properties

All costs directly associated with the development of oil and natural gas interests are capitalized on a field basis, as oil and natural gas interests if they extend or enhance the recoverable reserves of the underlying assets and are measured at cost less accumulated depletion and depreciation and net impairment losses. Development costs include expenditures for fields where technical feasibility and commercial viability has been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning costs, transfers from exploration and evaluation assets and general and administrative costs directly attributable to the development of oil and natural gas interests.

3. **Summary of Significant Accounting Policies (continued)**

Costs of replacing parts of property and equipment are capitalized only when they increase the future economic benefits of the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. The carrying amount of any replaced or sold component is derecognized. The costs of day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Exchanges, swaps or disposals of property and equipment are measured at fair value unless the transaction lacks commercial substance or neither the fair value of the asset received nor the asset given up can be readily estimated. When fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gains or losses from the divestiture of property and equipment are recognized in profit or loss.

b) Computer Equipment and Software

Computer equipment and software is stated at cost less accumulated depreciation. Depreciation of computer equipment and software is calculated using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 5 years.

Depletion and Depreciation of Oil and Gas Properties

Oil and natural gas interests are depleted using the unit-of-production method based on the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs to bring those reserves into production ("unit-of-production" method). Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in estimates used in prior periods, such as estimates of proved and probable reserves that affect the unit-of-production calculations do not give rise to prior period adjustments and are dealt with on a prospective basis.

Depreciation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

Impairment of Oil and Gas Properties

The carrying amounts of the Company's oil and natural gas properties included in exploration and evaluation assets and property and equipment are reviewed for indicators of impairment at each reporting date. If indicators of impairment exist, the recoverable amount of the asset is estimated. These indicators include, but are not limited to, extended decreases in prices or margins for oil and natural gas commodities or products, a significant downward revision in estimated reserves or an upward revision in future development costs. If indicators of impairment exist, then the oil and natural gas interest's recoverable amount is estimated.

For the purpose of assessing impairments, exploration and evaluation assets and property and equipment are grouped into respective CGUs, each of which is typically defined as a geographical field of development.

3. **Summary of Significant Accounting Policies (continued)**

Exploration and evaluation assets are assessed for impairment when (i) sufficient data exists to determine technical feasibility and commercial viability and they are reclassified to property and equipment, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Indicators of impairment may include the decision to no longer pursue the evaluation project, an expiry of the rights to explore in an area, or failure to receive regulatory approval. If, at any time, it is determined that the Company has no future exploration plans and commercial production cannot be achieved in relation to an area, the associated costs are written down to the estimated recoverable amount, or fully de-recognized and the amount of the write-down is expensed in profit or loss.

The recoverable amount of a CGU is the greater of its fair value less costs of disposal and its value in use. Fair value is defined as the amount for which the asset could be sold in an arm's length transaction between knowledgeable and willing parties. Unless otherwise indicated, the recoverable amount used in assessing impairment losses is fair value less costs of disposal. Fair value less costs of disposal is determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs, including future development costs. The cash flows are discounted at an appropriate discount rate, which would be applied by a willing market participant. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the CGU in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior years or periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation if no impairment loss had been recognized.

Decommissioning Provisions

Decommissioning provisions are recognized for decommissioning and restoration obligations associated with the Company's oil and natural gas interests and are recorded in the period a well or related asset is drilled, constructed or acquired. The best estimate of the expenditure required to settle the present obligation at the statement of financial position date is recorded on a discounted basis using a determined pre-tax risk-free interest rate. The future cash flow estimates are adjusted to reflect the risks specific to the liability. The value of the obligation is added to the carrying amount of the associated exploration and evaluation or property and equipment asset and is depleted or depreciated over the useful life of the asset. The provision is accreted over time through charges to finance expense with actual expenses charged against the accumulated liability. Changes in the future undiscounted cash flows or the discount rate are recognized as changes in the decommissioning provision and related asset. Actual decommissioning expenditures are charged against the liability as the costs are incurred. Any differences between the recorded provision and the actual costs incurred are recorded as a gain or loss in profit or loss.

3. **Summary of Significant Accounting Policies (continued)**

Foreign Currency Transactions

Transactions in foreign currencies are translated to the functional currency of each subsidiary at exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The financial statements of entities that have a functional currency different from the presentation currency are translated into United States dollars at the exchange rate at the date of the statement of financial position for assets and liabilities, and at the average rate for revenues and expenses. All resulting changes are recognized as other comprehensive income.

Business Combinations

Business combinations are accounted for using the acquisition method when the acquisitions of companies and/or assets meet the definition of a business under IFRS. The identifiable net assets acquired are measured at their fair value at the date of acquisition. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in profit or loss. Transaction costs associated with the acquisition are expensed when incurred.

Share-Based Payments

The Company has a Stock Option Plan as described in Note 10 and stock options granted to directors, officers, employees and consultants of the Company are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the options at the grant date using the Black-Scholes option pricing model.

In addition, the Company may grant certain finders warrants in conjunction with equity issues. The Company measures share-based payments to non-employees at the fair value of goods and services received at the date of receipt of the good or service. If the fair value of the goods and services cannot be reliably measured, the value of the equity instrument granted will be used and measured using the Black-Scholes option pricing model.

Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation cost or share issue cost is expensed over the vesting period to profit or loss or equity, respectively, with a corresponding increase in contributed surplus. When stock options or warrants are exercised, the cash proceeds along with the amount previously recorded as share based compensation reserve or warrant reserve are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options or warrants that vest. When stock options or warrants are cancelled, they are treated as if they have vested on the date of cancellation and any cost not yet recognized in profit or loss is expensed immediately or adjusted in equity, respectively.

3. **Summary of Significant Accounting Policies (continued)**

Joint Arrangements

A portion of the Company's oil and natural gas activities involve jointly controlled assets and are conducted under joint operating agreements. The Company has assessed the nature of its joint arrangements and determined them to be joint operations. Accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

Revenue Recognition

Revenue from the sale of oil and gas is recognized when title passes to an external party and is measured at the fair value of the consideration received or receivable based on volumes delivered to customers at contractual delivery points and rates.

Equity Instruments

The Company's common shares, warrants and stock options are classified as equity instruments. Incremental costs directly attributable to the issue of common shares, warrants and stock options are recognized as a deduction from equity, net of any tax effects.

Share Purchase Warrants

Warrants enable shares of the Company to be acquired in the future at fixed prices. Share purchase warrants are not issued in exchange for goods or services. The Company reviews the terms and conditions of the share purchase warrants to determine whether the warrants have characteristics of:

- a derivative financial liability that is measured at fair value, with changes in value recorded in profit or loss; or
- an equity instrument.

The Company classifies their share purchase warrants denominated in U.S. dollars as equity.

Share purchase warrants denominated in a foreign currency different from the functional currency of the Company meet the definition of a derivative liability and are fair valued at each statement of financial position date using the Black-Scholes option pricing model, with changes in the fair value recognized in profit or loss.

Units

Consideration received on the sale of a unit consisting of a common share and warrant classified as equity is allocated, within equity, to their respective equity accounts on a reasonable basis. Two commonly accepted allocation approaches are the residual method and the relative fair value method. Under the residual method, one component is measured first and the residual amount is allocated to the remaining component. In contrast, under the relative fair value method the total proceeds of the instrument is allocated to the components in proportion to their relative fair values. The Company accounts for the issuance of units using the relative fair value method.

3. **Summary of Significant Accounting Policies (continued)**

Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument and are measured at fair value on initial recognition of the instrument.

a) Classification and Measurement

The Company's non-derivative financial instruments are comprised of cash and cash equivalents, accounts receivable, other assets, accounts payable and accrued liabilities, amounts due to related parties and accrued liabilities.

The Company has designated cash and cash equivalents and other assets as "held for trading" which is measured at fair value through profit or loss.

The Company has designated accounts receivable as "loans and receivables" and accounts payable and accrued liabilities, amounts due to related parties and accrued liabilities as "financial liabilities measured at amortized cost" whereby these financial instruments are measured at amortized cost at the settlement date using the effective interest method of amortization.

b) Derivative Financial Instruments

Derivative financial instruments, including embedded derivatives, are recorded at their fair value on the date the derivative contract is entered into. They are subsequently re-measured at their fair value at each statement of financial position date, and the changes in the fair value are recognized in profit or loss. Fair values for derivative instruments are determined using valuation techniques, with assumptions based on market conditions existing at the consolidated statement of financial position date.

c) Impairment

The Company assesses at each statement of financial position date whether there is objective evidence that financial assets, other than those designated as "fair value through profit or loss" are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Objective evidence may include significant financial difficulty of obligor and/or delinquency in payment. When impairment has occurred, the cumulative loss is recognized in profit or loss. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Impairment losses may be reversed in subsequent periods.

Loss per Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of shares outstanding during the period. Diluted loss per share is computed similar to basic loss per share, except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options and warrants if dilutive, using the treasury stock method. Under the treasury stock method, the number of additional shares is calculated by assuming that the outstanding stock options and warrants are exercised and that the proceeds from such exercises are used to acquire shares of common stock at the average market price during the period.

3. Summary of Significant Accounting Policies (continued)

Income Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and unused tax losses and unused tax credits can be utilized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Finance Income and Expenses

Finance income consists of interest income and is recognized as it accrues in profit or loss using the effective interest method.

Finance expense is comprised of accretion of the discount on decommissioning provisions.

Future Changes in Accounting Policies

The following standards have been issued but are not yet effective:

IFRS 9 “Financial Instruments” (“IFRS 9”) will replace IAS 39 “Financial Instruments: Recognition and Measurement” (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple categories and measurement models in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single forward-looking “expected loss” impairment method to be used. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Company does not expect any significant changes as a result of the adoption of IFRS 9.

(Expressed in U.S. Dollars)

3. **Summary of Significant Accounting Policies (continued)**

IFRS 15 “Revenue from Contracts with Customers” (“IFRS 15”) will replace IAS 11 “Construction Contracts”, IAS 18 “Revenue”, IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfers of Assets from Customers” and SIC-31 “Revenue – Barter Transactions Involving Advertising Services”. IFRS 15 provides new standards for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework that applies to contracts with customers as well as more informative and relevant disclosures. The new standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Company does not expect any significant changes as a result of the adoption of IFRS 15.

IFRS 16 “Leases” (“IFRS 16”) will replace the previous lease standards, IAS 17 “Leases”. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model and requires recognition of assets and liabilities for most leases. IFRS 16 is effective for periods beginning on or after January 1, 2019 with early adoption permitted. The Company does not expect any significant changes as a result of the adoption of IFRS 16.

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. As discussed in Note 2(b) and 18(b), the Company has begun exploration activity in the Republic of Botswana, Africa.

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 year ended 30 June 2017:

	Canada	United States	Australia	Botswana	Total
Revenues	$ -	167,264	-	-	$ 167,264
Income (Loss)	$ (283,456)	(441,846)	19,150	-	$ (706,152)
Non-current Assets	$ -	12,339,357	-	64,678	$ 12,404,035
Total Assets	$ 9,138	13,117,154	260,396	64,678	$ 13,451,366
Total Liabilities	$ 33,966	700,106	49,199	-	$ 783,271

As at and for the year ended 30 June 2016:

	Canada	United States	Australia	Total
Revenues	$ -	134,243	-	$ 134,243
Loss	$ (329,420)	(2,100,694)	(11,625)	$ (2,441,739)
Non-current Assets	$ -	12,685,399	-	$ 12,685,399
Total Assets	$ 2,327	13,468,052	45,198	$ 13,515,577
Total Liabilities	$ 33,101	1,207,832	40,347	$ 1,281,280

(Expressed in U.S. Dollars)

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.

6. Exploration and Evaluation Assets

	30 June 2017	30 June 2016
Balance, beginning of year	**$ -**	$ 1,907,780
Additions (Note 18(b))	**64,678**	126,069
Impairment loss	**-**	(2,033,849)
Balance, end of year	**$ 64,678**	**$ -**

As at 30 June 2017, the Company determined there were no indicators of impairment or indications that impairment losses on exploration and evaluation assets recognized in prior periods be reversed.

As at 30 June 2016, the Company determined there to be indicators of impairment regarding exploration and evaluation assets, based on the prolonged decline of crude oil prices and management's reallocation of future spending capital.

During the year ended 30 June 2016, the Company recorded an impairment loss of $493,000 related to properties located in California, $1,435,849 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 directly related to exploration and evaluation assets and that are included in additions to exploration and evaluation assets above for the years ended 30 June 2017 and 30 June 2016 are $nil and $58,333 which includes $nil and $55,000 of stock-based compensation, respectively.

(Expressed in U.S. Dollars)

7. Property and Equipment

Cost

	Balance at 30 June 2015	Additions	Dispositions	Balance at 30 June 2016	Additions	Change in Decommissioning Provision	Balance at 30 June 2017
Oil and gas properties	$ 12,582,358	$ 763,455	$ (248,590)	$ 13,097,223	$ 16,209	$ (70,000)	$ 13,043,432
Computer equipment and software	19,032	-	-	19,032	-	-	19,032
	$ 12,601,390	$ 763,455	$ (248,590)	$ 13,116,255	$ 16,209	$ (70,000)	$ 13,062,464

Accumulated Depletion, Depreciation, Amortization and Impairment

	Balance at 30 June 2015	Additions	Impairment Loss	Balance at 30 June 2016	Additions	Balance at 30 June 2017
Oil and gas properties	$ 269,725	$ 200,159	$ 195,000	$ 664,884	$ 289,475	$ 954,359
Computer equipment and software	10,533	2,673	-	13,206	2,776	15,982
	$ 280,258	$ 202,832	$ 195,000	$ 678,090	$ 292,251	$ 970,341

Net Book Value

	Balance at 30 June 2016	Balance at 30 June 2017
Oil and gas properties	$ 12,432,339	$ 12,089,073
Computer equipment and software	5,826	3,050
	$ 12,438,165	$ 12,092,123

Capitalized general and administrative expenses that comprise additions to property and equipment above for the year ended 30 June 2017 and 30 June 2016 are $Nil and $286,329 which includes $nil and $90,829 of stock-based compensation, respectively.

During the year ended 30 June 2017, the Company disposed of its working interest in a property with a carrying value of $nil to two officers of the Company for a royalty interest on the lease. No gain or loss was recorded as the fair value of the royalty interest on the lease was estimated to be $nil.

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.

The calculation of depletion, depreciation and amortization expense for the year ended 30 June 2017 included future development costs of approximately $5.5 million (2016 - $5.5 million) associated with the development of the Company’s proved and probable reserves.

(Expressed in U.S. Dollars)

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

Impairment

(a) Impairment – 30 June 2017

The Company assesses many factors when determining if an impairment test should be performed. At 30 June 2017, the Company determined that impairment indicators existed for the Company's CGUs considering the year over year decline in the forecast commodity prices as published by the Company's external reserve evaluators. At 30 June 2017 recoverable amounts for the California and Illinois CGUs exceeded the Company's carrying value for these oil and gas properties and management determined no impairment loss was required based on the assessment performed.

The recoverable amounts of specific CGUs were estimated at the fair value less costs of disposal based on the net present value of the before tax future net cash flows from oil and natural gas proved and probable reserves using forecasted prices published by the Company's external reserve evaluators at 30 June 2017 based on total proved and probable reserves estimated by the Company's external reserve evaluators. The future net cash flows for all impairment test calculations performed were discounted at a rate of 10% per annum. The estimation of proved and probable reserves and related net cash flows is inherently subjective and involves considerable estimation uncertainty.

Key assumptions used in the determination of the recoverable amounts of each CGU includes commodity prices and discount rates applied to cash flows from proved and probable reserves. A 1% increase in the assumed discount rate over the life of the reserves independently would not result in any additional impairment loss for the year ended 30 June 2017.

The following represents the forecasted prices used to determine recoverable amounts in the 30 June 2017 impairment test:

Calendar year	At 30 June 2017 Average USD price per barrel (WTI Index)
2017 (6 months)	$50.00
2018	$55.00
2019	$60.00
2020	$65.00
2021	$67.50
2022	$70.00
2023	$72.50
2024 and thereafter	2% escalation

In performing the impairment tests, the benchmark prices are adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality.

(Expressed in U.S. Dollars)

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

(b) Impairment – 30 June 2016

During the year ended 30 June 2016, the Company determined that impairment indicators existed for the Company's CGUs. In performing the review, management determined that the decline in forecast commodity prices year over year as published by the Company's external reserve evaluators justified review of the recoverable amount of all CGUs.

The recoverable amounts of specific CGUs were estimated at the fair value less costs of disposal based on the net present value of the before tax future net cash flows from oil and natural gas proved and probable reserves using forecasted prices published by the Company's external reserve evaluators at 31 December 2015 and 30 June 2016 based on total proved and probable reserves estimated by the Company's external reserve evaluators. The future net cash flows for all impairment test calculations performed were discounted at a rate of 10% per annum. The estimation of proved and probable reserves and related net cash flows is inherently subjective and involves considerable estimation uncertainty.

An impairment loss of $195,000 was recognized for the year ended 30 June 2016 related to properties in Texas where the recoverable amount was determined to be $nil, and has been included in impairment loss. The recoverable amounts for the California and Illinois CGUs exceeded the Company's carrying value for these oil and gas properties and no impairment loss was required based on the assessment performed during the year ended 30 June 2016.

The following represents the forecasted prices used to determine recoverable amounts for the impairment tests noted above:

Calendar year	At 30 June 2016 Average USD price per barrel (WTI Index)	At 31 December 2015 Average USD price per barrel (WTI Index)
2016 (6 months)	$50.00	$45.00
2017	$55.00	$55.00
2018	$65.00	$65.00
2019	$70.00	$70.00
2020	$75.00	$75.00
2021	$78.00	$78.00
2022	$81.00	$81.00
2023 and thereafter	2% escalation	2% escalation

In performing the impairment tests, the benchmark prices are adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality.

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 15.

(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.

	30 June 2017	30 June 2016
Balance, beginning of year	**$ 633,000**	$ 993,683
Change in discount rate and timing of cash flows	**(70,000)**	194,131
Additions	**15,000**	25,000
Dispositions / settlements	**(41,976)**	(592,185)
Decommissioning expenditures	**(29,400)**	-
Accretion expense	**6,526**	12,371
Balance, end of year	**$ 513,150**	**$ 633,000**

The Company has calculated the fair value of decommissioning provisions using a discount rate of 2.7% (2016 – 1.8%) and an estimated inflation rate of 1.8% (2016 – 1.8%). The estimated undiscounted future cash flows to settle decommissioning provisions are $728,000 (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 10 to 20 years.

The change in the discount rate used for calculating the decommissioning liability during the year ended 30 June 2017 resulted in a decrease to the liability and a corresponding decrease to property and equipment of $70,000 and a gain in profit or loss of $41,976 was recognized on abandonment of certain oil and gas properties for the year ended 30 June 2017.

The fair value of certain oil and natural gas properties of the Company was determined to be $nil during the year ended 30 June 2017. Accordingly, the change in discount rate and estimates related to these properties was recorded as an adjustment to impairment loss for the year ending 30 June 2017 of $15,000 (2016 - $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 for the year ended 30 June 2016.

The risk-free rate used in the calculation of the net present value has a significant impact on the carrying value of decommissioning liabilities. A 0.5% increase in the risk-free rate would decrease the decommissioning liability by $30,000 at 30 June 2017.

(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.

Common shares issued and outstanding:

	Number	Amount
Balance at 30 June 2015	52,195,005	$ 34,934,188
Private placement, 10 August 2015	3,436,750	556,622
Share issuance costs		(39,788)
Private placement, 12 November 2015	2,345,833	392,112
Shares issued on debt conversion	797,620	125,413
Balance at 30 June 2016	58,775,208	35,968,547
Private placement, 2 December 2016	8,700,000	320,262
Private placement, 22 December 2016	22,350,000	812,060
Share issuance costs		(145,431)
Balance at 30 June 2017	89,825,208	$ 36,955,438

Share Consolidation

Effective 23 November 2016, the shareholders of the Company approved a 3 for 1 share consolidation. The exercise price of outstanding stock options and warrants was proportionately adjusted based upon the consolidation ratio. All share, option, warrant and per share amounts disclosed in these financial statements have been adjusted retroactively for the consolidation.

Common Stock Offerings

On 2 December 2016, the Company completed a private placement of 8,700,000 Chess Depository Interest (“CDI”), or common shares, as the first tranche of an overall capital raise. The second tranche closed on 22 December 2016 with the placement of an additional 22,350,000 CDI, or common shares. Gross proceeds of CDN$1,519,888 (US$1,132,322) were realized from the placements, and placement costs of CDN$193,636 (US$145,431) were incurred including $93,002 of costs attributable to the value of finder warrants issued (Note 10). Of the second tranche, two directors of the Company subscribed for a total of 7,000,000 CDI, or common shares for CDN$342,647 (US$254,336).

10. **Share Capital (continued)**

Common Stock Offerings (continued)

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$0.12 per share. The warrants expired unexercised on 31 January 2017. The gross proceeds of CDN$ 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 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$0.12 per share. The warrants expired unexercised on 31 January 2017. The gross proceeds of CDN$ 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.

Conversion of Debt

On 16 November 2015, the Company issued 2,392,858 common shares to certain directors and past directors 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.

10. **Share Capital (continued)**

Warrants

Finder warrants

A total of 3,881,250 finder warrants were issued on 9 January 2017 to the joint lead managers as placement fees for the private placements of CDI's closed on 2 December 2016 and 22 December 2016, with each finder warrant exercisable at AUD$0.07 per share to acquire one CDI of the Company until 9 January 2020, at which time the warrants expire. The fair value of the finder warrants of AUD$126,405 (US$93,002) is recorded as share issuance costs during the year ended 30 June 2017.

The finder warrants issued during the year ended 30 June 2017 were measured using the Black Scholes model with the following assumptions:

	30 June 2017
Share price (AUD)	$0.06
Risk-free rate	0.84%
Expected life (years)	3.0
Expected volatility	91.7%
Dividend yield	0.0%
Forfeiture rate	0.0%

Expected volatility was determined based on the Company's historical volatility.

Share purchase warrants

Share purchase warrants have been classified as a derivative financial liability since the exercise price of the warrants is fixed in Canadian dollars or Australian 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:

	30 June 2017	30 June 2016
Balance, beginning of year	**$ 886**	$ 26,456
Warrants issued	**-**	78,861
Fair value adjustments	**(887)**	(113,587)
Foreign exchange loss	**1**	9,156
Balance, end of year	**$ -**	**$ 886**

(Expressed in U.S. Dollars)

10. **Share Capital (continued)**

Warrants (continued)

As at 30 June 2017, there were no share purchase warrants outstanding and 6,166,293 share purchase warrants expired unexercised during the year.

The fair value of the share purchase warrants granted during the year ended 30 June 2016 was determined based on the following weighted average assumptions:

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

Activity related to the number of warrants outstanding and exercisable for the Company for the years ended 30 June 2017 and 2016 is as follows:

	30 June 2017			30 June 2016		
	Number	Weighted Average Exercise Price	Currency	Number	Weighted Average Exercise Price	Currency
Balance, beginning of year	6,166,293	$ 0.96		3,946,796	$ 1.44	
Share purchase warrants issued in private placement at 10 August 2015	-	-		1,718,375	0.36	AUD
Share purchase warrants issued in private placement at 12 November 2015	-	-		1,172,917	0.36	AUD
Finder warrants - 9 January 2017	3,881,250	0.07	AUD	-	-	
Expiration of share purchase warrants	(6,166,293)	0.96		(671,795)	1.20	CDN
Balance, end of year	3,881,250	$ 0.07		6,166,293	$ 0.96	

The following table summarizes information on finder warrants outstanding at 30 June 2017:

Exercise Price	Currency	Number Outstanding	Weighted Average Contractual Life (years)
$ 0.07	AUD	3,881,250	2.53

(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 price of the various issuances of options over time are in Canadian and Australian dollars.

	Year ended June 30			
	2017		2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	4,956,667	$ 0.60	2,190,000	$ 0.99
Granted	-	-	3,133,334	0.36
Expired	(16,667)	1.50	(366,667)	0.93
Outstanding, end of year	4,940,000	$ 0.59	4,956,667	$ 0.60
Exercisable, end of year	4,173,333	$ 0.64	2,510,834	$ 0.78

The Company granted 1,466,667 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.

(Expressed in U.S. Dollars)

10. **Share Capital (continued)**

Stock Option Plan (continued)

The Company granted 1,666,667 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 following table summarizes information on stock options outstanding and exercisable at 30 June 2017:

Exercise Price		Currency	Number Outstanding	Number Exercisable	Weighted Average Contractual Life (years)
$	0.90	CDN	1,306,667	1,306,667	3.54
$	1.02	CDN	283,333	283,333	5.24
$	1.23	CDN	250,000	250,000	1.31
$	1.50	CDN	33,333	33,333	0.80
$	0.36	AUD	3,066,667	2,300,000	3.04
			4,940,000	4,173,333	

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	$0.36 AUD
Grant date fair value	$0.07 AUD
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

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)

The fair value recognized for stock options during the year ended 30 June 2017 is $59,919 (2016 - $145,829) and is included in general and administrative expense with a corresponding adjustment to share based compensation reserve.

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. **Loss per Common Share**

The basic loss per common share is based on the weighted average number of common shares outstanding for the year ended 30 June 2017 and 2016 of 75,414,921 and 57,222,016, respectively. The stock options and finders and share purchase 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:

	Year ended 30 June	
	2017	2016
Accounts receivable	$ 17,820	$ 16,705
Prepaids and other	(3,573)	(5,000)
Accounts payable and accrued liabilities	(73,018)	68,259
Due to related parties	(89,945)	(245,012)
Change related to operating activities	$ (148,716)	$ (165,048)

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

(b) Cash and cash equivalents is comprised of:

	As at 30 June	
	2017	2016
Balances with banks in current accounts	**$ 297,231**	$ 92,010
Money market savings account	**678,211**	652,032
	$ 975,442	$ 744,042

(c) Net finance expense for the year ended 30 June 2017 includes $6,526 in accretion expense (note 9) (2016 – $12,371) net of finance income of $4,436 (2016 - $2,384).

(Expressed in U.S. Dollars)

13. **Income Taxes**

The components of temporary differences that give rise to deferred tax assets and liabilities are as follows:

	Year ended 30 June **2017**	2016
Property and equipment	$ (1,964,000)	$ (691,000)
Decommissioning provisions	192,000	237,000
Non-capital losses	12,198,000	9,750,000
Other	56,000	168,000
Tax assets not recognized	(10,482,000)	(9,464,000)
Deferred tax asset	$ -	$ -

As at 30 June 2017, the Company has non-capital loss carryforwards by domestic country which will expire as follows:

	United States (USD$)	Canada (CAD$)	Australia (AUD$)
2028	$ -	$ 24,000	$ -
2029	-	30,000	-
2030	-	44,000	-
2031	906,000	290,000	-
2032	1,768,000	392,000	-
2033	5,463,000	1,406,000	-
2034	2,119,000	1,420,000	20,000
2035	11,677,000	1,547,000	7,000
2036	6,217,000	1,176,000	152,000
2037	413,000	625,000	-
	$ 28,563,000	$ 6,954,000	$ 179,000

(Expressed in U.S. Dollars)

13. Income Taxes (continued)

A reconciliation of income taxes at statutory rates is as follows:

	Year ended 30 June **2017**	2016
Loss before income taxes	$ (706,152)	$ (2,441,739)
Statutory tax rate	37.50%	37.50%
Expected income tax recovery	(265,000)	(916,000)
Non-deductible stock-based compensation	19,000	50,000
Change in tax assets not recognized	1,018,000	836,000
Effect of tax return filings	(760,000)	-
Effect of tax rate differences and other	(12,000)	30,000
Net income tax recovery	$ -	$ -

14. Oil and Gas Revenue

	Year ended 30 June **2017**	2016
Oil and gas sales	**$ 196,052**	$ 157,753
Less: royalties	**(28,788)**	(23,510)
	$ 167,264	$ 134,243

15. **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 $4,100. During the year ended 30 June 2017, the Company incurred approximately $48,800 (2016 - $63,600) in costs payable to the outside firm for accounting services and is included in general and administrative expenses. At 30 June 2017, amounts owing and included in due to related parties is approximately $4,100 (2016 - $5,300).

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

Total compensation paid to key management personnel which includes both directors and officers identified above as well as incentive stock compensation related to the granting and vesting of stock options during the period, was approximately $355,500 (2016 - $563,500) for the year ended 30 June 2017.

Total salary expenses for employees, directors and management included in general and administrative expenses on the statement of loss for 2017 is $255,500 (2016 - $232,000) and the capitalized portion is $nil (2016 - $198,800).

During the year ended 30 June 2016, the directors waived compensation in the amount of approximately $87,000 for their services.

16. **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.

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 and are significant to the overall fair value measurement.

16. **Financial Instruments (continued)**

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 June 2017, the Company had only cash and cash equivalents and other assets as “fair value through profit or loss”, measured at fair value – Level 1. In addition, the Company used a Level 3 measure in determining the recoverable amount of property and equipment at 30 June 2017 and 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 year ended 30 June 2017 and 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 June 2017, the Company had a positive working capital of approximately $840,300. Continuing weak commodity prices experienced during 2016 and 2017 have negatively impacted earnings and operating cash flow for the fiscal year.

The Company continues to focus on minimal capital activities, other than moving forward in Stage 1 of the CSG Project (Note 18(b)). In addition and as discussed in Note 1, management continues to seek additional means to sustain the Company’s financial position and liquidity including but not limited to investigating potential partnership, merger and/or joint venture opportunities and acquiring and disposing of oil and natural gas properties and, as circumstances and conditions dictate, the successful completion of further private placements. As discussed in Note 10, during the year ended 30 June 2017, the Company was successful in completing a private placement generating CDN$1,449,254 (US$1,079,893) after placement costs. 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)

16. **Financial Instruments (continued)**

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

	Less than a year	After 5 years
Accounts payable and accrued liabilities	**$ 140,016**	$ -
Amounts due to related parties	**67,057**	-
Accrued liabilities	**-**	63,048
	$ 207,073	$ 63,048

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

The Company is also subject to commitments as disclosed in Note 18. During the year ended 30 June 2017, the Company recognized a gain on the extinguishment of certain trade payables of $212,798 and has included the amount as other income in the statement of loss. Management has determined that these obligations no longer exist at 30 June 2017.

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 or 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.

16. **Financial Instruments (continued)**

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or 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, the Australian dollar and the Botswana 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 June 2017, $8,737 of cash and cash equivalents, $1,008 of accounts receivable, and $33,966 of accounts payable are exposed to fluctuations with the Canadian dollar. As at 30 June 2017, $261,540 of cash and cash equivalents and $49,199 of accounts payable are exposed to fluctuations with the Australian dollar. As at 30 June 2017, there are no financial instruments exposed to fluctuations with the Botswana dollar. Management does not believe this risk is significant and the sensitivity to fluctuations in foreign exchange rate changes is minimal.

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 and concentration risk by keeping the majority of its cash and cash equivalents and other assets 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 $1,283,012 at 30 June 2017 (2016 - $1,069,432). 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 June 2017 and 2016, the Company recorded an allowance for doubtful accounts of $156,090 related to an amount due from a project operator that was greater than 90 days outstanding. Included in accounts receivable is amounts past due of $39,528.

(Expressed in U.S. Dollars)

17. **Capital Management**

The Company's objective when managing capital is to progress the development of natural gas properties under Rhino through maintaining adequate cash resources to support planned activities through the prudent deployment of capital which may 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 represent the best and highest use of available capital in the current 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.

The Company is not subject to externally imposed capital requirements other than as disclosed in note 5.

Total capital managed is as follows:

	2017	2016
Shareholders' equity	**$ 12,668,095**	**$ 12,234,297**

Total capital managed increased from prior year due to the proceeds from the private placement activity in December 2016, offset by an overall use of cash in operating activities for the year.

18**.** **Commitments**

(a) Office space

The Company has a rental agreement for office premises to 31 October 2017 for a total obligation of approximately $10,000 excluding operating costs.

18. **Commitments (continued)**

(b) Farm-in agreement

In December 2016, Rhino entered into a farm-in agreement ("Agreement") with an arms-length company ("Farmco") for a 3 stage farm-in over an expected term of 3 years to earn up to 75% of the Serowe coal seam gas project ("CSG Project") located in the Kalahari Basin CSG Fairway in Botswana, Africa. The Company has completed all conditions in order to commence stage 1 of the farm-in. In March 2017 the tenements were transferred from Farmco to Rhino. In accordance with the Agreement, Farmco must subscribe for ordinary shares of Rhino ("Rhino Shares"). At 30 June 2017, Farmco has not yet subscribed for the Rhino shares. When the conditions are formally waived and Farmco subscribes for the Rhino shares, Rhino will hold 75% of the Rhino Shares and Farmco will hold 25% of the Rhino Shares. The Rhino Shares to be issued to Farmco will be at 1 Botswanan Pula (BPU$1) per Rhino Share, being the estimated fair value of the tenements on the date of transfer. Under the terms of the Agreement, Rhino has agreed to use all reasonable endeavors to complete Stage 1 of the Agreement one year from the date of transfer of the tenements and will provide all necessary funding and resources. If Stage 1 is not completed by the Stage 1 Milestone Date being March 2018, Rhino has an option to request an extension from Farmco. Furthermore, once Stage 1 is completed, Rhino earns the right to the Stage 1 earned interest being 25% and Rhino will have the option to begin Stage 2 and Stage 3 thereafter. Stage 1 of the farm-in involves Rhino conducting exploration to obtain contingent resources certification comprising:

- Conducting desorption tests of two existing core wells; and
- The drilling of one completion and production test well.

Management estimates the costs to complete Stage 1 of the farm-in to be approximately $AUD $1,300,000. The Company expects to complete further equity issuances in order to complete Stage 1, however there is no assurance that the Company will be successful in doing so. Under the Agreement Rhino will be the operator of the farm-in and Farmco and Rhino have agreed to negotiate and enter into a joint operating agreement for the development of the farm-in prior to the completion of Stage 1.

The Agreement may be terminated at any time without penalty, subject to the transfer of the tenements back to Farmco, with each party responsible for their share of costs incurred to date of termination.

Rhino has recorded approximately $65,000 of license acquisition costs and other related costs as exploration and evaluation assets at 30 June 2017. In addition, approximately $34,000 of costs have been included in profit or loss related to indirect costs associated with the preliminary activities related to the CSG Project.