STRATA-X ENERGY LTD.
(Unaudited)
Interim Condensed Consolidated Financial Statements
For the Three Months Ended 30 September 2017
(Expressed in U.S. Dollars)

STRATA-X ENERGY LTD.
(Unaudited)
Interim Condensed Consolidated Statement of Financial Position
30 September 2017
(Expressed in U.S. Dollars)

	30 September 2017	30 June 2017
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 743,287	$ 975,442
Accounts receivable	55,071	60,336
Prepaids and other	11,553	11,553
Total current assets	809,911	1,047,331
Other assets	252,262	247,234
Exploration and evaluation assets (Notes 5 and 14)	68,775	64,678
Property and equipment (Note 6)	12,086,880	12,092,123
Total assets	$ 13,217,828	$ 13,451,366
LIABILITIES:		
Current liabilities:		
Accounts payable and accrued liabilities	$ 96,639	$ 140,016
Deposits	14,532	-
Amounts due to related parties	-	67,057
Total current liabilities	111,171	207,073
Accrued liabilities	63,048	63,048
Decommissioning provisions (Note 7)	515,150	513,150
Total liabilities	689,369	783,271
SHAREHOLDERS' EQUITY:		
Share capital (Note 8)	36,955,438	36,955,438
Share based compensation reserve (Note 8)	1,537,229	1,531,908
Warrant reserve (Note 8)	1,102,488	1,102,488
Contributed surplus	22,066,879	22,066,879
Accumulated other comprehensive income	(818,998)	(821,829)
Deficit	(48,314,577)	(48,166,789)
Total shareholders' equity	12,528,459	12,668,095
Total liabilities and shareholders' equity	$ 13,217,828	$ 13,451,366

Going Concern (Note 1)
Commitments (Note 14)

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 2017 and 30 September 2016
(Expressed in U.S. Dollars)

	Three months ended 30 September	
	2017	2016
Oil and gas revenue, net of royalties	$ 7,716	$ 73,892
Expenses		
Production and operating	10,219	65,275
General and administrative	138,407	145,312
Depletion, depreciation and amortization (Note 6)	5,243	67,597
Impairment of oil and gas properties	-	5,903
Total expenses	153,869	284,087
Net operating loss	(146,153)	(210,195)
Gain on valuation of derivative liabilities	-	717
Net finance income (expense)	(1,636)	138
Net loss	(147,788)	(209,340)
Other comprehensive income (loss)		
Exchange differences in translating foreign operations	2,831	(1,148)
Other comprehensive income (loss) for the period	2,831	(1,148)
Comprehensive loss	$ (144,957)	$ (210,488)
Loss per common share, basic and dilluted (Note 9)	$ (0.00)	$ (0.00)

See accompanying notes

STRATA-X ENERGY LTD.
(Unaudited)
Interim Condensed Consolidated Statement of Changes in Shareholders' Equity
For the Three Months Ended 30 September 2017 and 30 September 2016
(Expressed in U.S. Dollars)

	Share Capital	Share based Compensation Reserve	Warrants Reserve	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balance, 1 July 2017	$ 36,955,438	$ 1,531,908	$ 1,102,488	$ 22,066,879	$ (821,829)	$ (48,166,789)	$ 12,668,095
Share-based compensation (Note 8)	-	5,321	-	-	-	-	5,321
Comprehensive income (loss)	-	-	-	-	2,831	(147,788)	(144,957)
Balance, 30 September 2017	$ 36,955,438	$ 1,537,229	$ 1,102,488	$ 22,066,879	$ (818,998)	$ (48,314,577)	$ 12,528,459

	Share Capital	Share based Compensation Reserve	Warrants Reserve	Contributed Surplus	Accumulated Other Comprehensive Income	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
Share-based compensation (Note 8)	-	25,866	-	-	-	-	25,866
Comprehensive income (loss)	-	-	-	-	(1,148)	(209,340)	(210,488)
Balance, 30 September 2016	$ 35,968,547	$ 1,497,855	$ 1,009,486	$ 22,066,879	$ (823,115)	$ (47,669,977)	$ 12,049,675

See accompanying notes

STRATA-X ENERGY LTD.
(Unaudited)
Interim Condensed Consolidated Statement of Cash Flows
For the Three Months Ended 30 September 2017
(Expressed in U.S. Dollars)

	Three months ended 30 September	
	2017	2016
Cash and cash equivalents provided by (used in):		
Operating activities:		
Net loss for the period	$ (147,788)	$ (209,340)
Adjustments for:		
Depletion, depreciation and amortization	5,243	67,597
Accretion of decommissioning provisions	2,000	-
Share-based compensation	5,321	25,866
Impairment loss of oil and gas properties	-	5,903
Gain on valuation of derivative liabilities	-	(717)
Operating cash flows before changes in non-cash working capital	(135,225)	(110,691)
Changes in non-cash working capital (Note 10)	(23,581)	(157,741)
Net cash used in operating activities:	(158,806)	(268,432)
Investing activities:		
Exploration and evaluation assets expenditures	(4,097)	-
Property and equipment expenditures	-	(6,428)
Net cash used in investing activities:	(4,097)	(6,428)
Financing activities:		
Amounts paid to related parties	(67,057)	(4,291)
Net cash used in financing activities:	(67,057)	(4,291)
Decrease in cash and cash equivalents	(229,960)	(279,151)
Cash and cash equivalents, beginning of period	975,442	744,042
Effect of exchange rate translation	(2,195)	(1,153)
Cash and cash equivalents, end of period	$ 743,287	$ 463,738

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 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". 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 7).

Going Concern

The interim condensed 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 $147,788 for the three months ended 30 September 2017 (2016 - $209,338) and has an accumulated deficit of $48,314,577 as of 30 September 2017 (30 June 2017 - $48,166,789). In addition, the Company generated negative operating cash flows before changes in non-cash working capital of $135,255 for the three month period ended 30 September 2017 (2016 - $110,691).

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 14(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 have been and will continue to be 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 14(b)).

1. **Nature of Business and Going Concern (continued)**

Going Concern (continued)

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 interim condensed consolidated 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 2017.

The policies applied in these interim condensed consolidated financial statements are based on IFRS issued and outstanding as of 23 October 2017, the date of the Board of Directors approval of the 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. 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 interim condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and share-based 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. The functional currency of Rhino, a wholly-owned subsidiary of the Company's Australian subsidiary, is the Botswana pula.

(Expressed in U.S. Dollars)

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

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

The timely preparation of interim condensed 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. There have been no changes to the use of estimates or management's judgments since 30 June 2017.

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 2017 annual consolidated financial statements. The Company continues to assess the impact of adopting the pronouncements of the IASB as described in the Company's 30 June 2017 annual financial statements.

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 three months ended 30 September 2017:

	Canada	United States	Australia	Botswana	Total
Revenues	$ -	$ 7,716	$ -	$ -	$ 7,716
Income (Loss)	$ (42,220)	$ (105,568)	$ -	$ -	$ (147,788)
Non-current Assets	$ -	$ 12,339,142	$ -	$ 68,775	$ 12,407,917
Total Assets	$ 7,071	$ 12,903,415	$ 238,577	$ 68,775	$ 13,217,838
Total Liabilities	$ 26,061	$ 623,391	$ 39,917	$ -	$ 689,369

(Expressed in U.S. Dollars)

4. **Segment Reporting**

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

	Canada	United States	Australia	Total
Revenues	$ -	$ 73,892	$ -	$ 73,892
Income (Loss)	$ (59,377)	$ (148,155)	$ (1,808)	$ (209,340)
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

5. **Exploration and Evaluation Assets**

	Three months ended 30 September 2017	Year ended 30 June 2017
Balance, beginning of period	**$ 64,678**	$ -
Additions	**4,097**	64,678
Impairment loss	**-**	-
Balance, end of period	**$ 68,775**	**$ 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.

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 three months ended 30 September 2017 and the year ended 30 June 2017 are $nil and $nil, respectively.

(Expressed in U.S. Dollars)

6. Property and Equipment

	Cost						
	Balance at 30 June 2016	**Additions**	**Change in Decommissioning Provision**	**Balance at 30 June 2017**	**Additions**	**Dispositions**	**Balance at 30 September 2017**
Oil and gas properties	$ 13,097,223	$ 16,209	$ (70,000)	$ 13,043,432	$ -	$ -	$ 13,043,432
Computer equipment and software	19,032	-	-	19,032	-	-	19,032
	$ 13,116,255	$ 16,209	$ (70,000)	$ 13,062,464	$ -	$ -	$ 13,062,464

	Accumulated Depletion, Depreciation, Amortization and Impairment						
	Balance at 30 June 2016	**Additions**	**Impairment Loss**	**Balance at 30 June 2017**	**Additions**	**Impairment Loss**	**Balance at 30 September 2017**
Oil and gas properties	$ 664,884	$ 289,475	$ -	$ 954,359	$ 4,667	$ -	$ 959,026
Computer equipment and software	13,206	2,776	-	15,982	576	-	16,558
	$ 678,090	$ 292,251	$ -	$ 970,341	$ 5,243	$ -	$ 975,584

	Net Book Value	
	Balance at 30 June 2017	**Balance at 30 September 2017**
Oil and gas properties	$ 12,089,073	$ 12,084,406
Computer equipment and software	3,050	2,474
	$ 12,092,123	$ 12,086,880

Capitalized general and administrative expenses that comprise additions to property and equipment above for the three months ended 30 September 2017 and the year ended 30 June 2017 are $Nil and $Nil, 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.

(Expressed in U.S. Dollars)

7. **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 2017	Year ended 30 June 2017
Balance, beginning of period	**$ 513,150**	$ 633,000
Change in discount rate and timing of cash flows	**-**	(70,000)
Additions	**-**	15,000
Dispositions / settlements	**-**	(41,976)
Decommissioning expenditures	**-**	(29,400)
Accretion expense	**2,000**	6,526
Balance, end of period	**$ 515,150**	**$ 513,150**

The Company has calculated the fair value of decommissioning provisions using a discount rate of 2.7% (30 June 2017 – 2.7%) and an estimated inflation rate of 1.8% (30 June 2017 – 1.8%). The estimated undiscounted future cash flows to settle decommissioning provisions are $728,000 (30 June 2017 - $728,000) 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 decreases 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.

(Expressed in U.S. Dollars)

8. 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 share.

Common shares issued and outstanding:

	Number	Amount
Balance at 30 June 2016	58,775,195	$ 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 and 30 September 2017	89,825,195	$ 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 7). 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).

8. **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 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 reflected as share issuance costs during the year ended 30 June 2017.

The finder warrants issued during the year ended 30 June 2017 are 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:

	Three months ended 30 September 2017	30 June 2017
Balance, beginning of period	**$ -**	$ 886
Warrants issued	**-**	-
Fair value adjustments	**-**	(887)
Foreign exchange (gain) loss	**-**	1
Balance, end of period	**$ -**	$ -

(Expressed in U.S. Dollars)

8. **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 2017 and the year ended 30 June 2017 is as follows:

	Three months ended 30 September 2017			Year ended 30 June 2017		
	Number	Weighted Average Exercise Price	Currency	Number	Weighted Average Exercise Price	Currency
Balance, beginning of period	3,881,250	$ 0.07		6,166,293	$ 0.96	
Finder warrants - 9 January 2017	-	-		3,881,250	0.07	AUD
Expiration of warrants	-	-		(6,166,293)	0.96	
Balance, end of period	3,881,250	$ 0.07		3,881,250	$ 0.07	

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

Exercise Price	Currency	Number Outstanding	Weighted Average Contractual Life (years)
$ 0.07	AUD	3,881,250	2.78

(Expressed in U.S. Dollars)

8. **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 2017		Year ended 30 June 2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	4,940,000	$ 0.59	4,956,667	$ 0.60
Granted	-	-	-	-
Expired	-	-	(16,667)	1.50
Outstanding, end of period	4,940,000	$ 0.59	4,940,000	$ 0.59
Exercisable, end of period	4,523,332	$ 0.61	4,173,333	$ 0.64

(Expressed in U.S. Dollars)

8. **Share Capital (continued)**

Stock Option Plan (continued)

The following table summarizes information on stock options outstanding and exercisable at 30 September 2017:

Exercise Price	Currency	Number Outstanding	Number Exercisable	Weighted Average Contractual Life (years)
$ 0.90	CDN	1,306,667	1,306,667	3.79
$ 1.02	CDN	283,333	283,333	5.48
$ 1.23	CDN	250,000	250,000	1.56
$ 1.50	CDN	33,333	33,333	1.05
$ 0.36	AUD	3,066,667	2,650,000	3.29
		4,940,000	4,523,332	

During the three months ended 30 September 2017, the Company expensed the fair value recognized for stock options of $5,321 (30 September 2016 - $25,866) as general and administrative costs with a corresponding adjustment to share based compensation reserve in shareholders' equity.

9. **Loss per Common Share**

The basic loss per common share is based on the weighted average number of common shares outstanding as disclosed on a post-consolidation basis for the three months ended 30 September 2017 of 89,825,195 (2016 – 58,775,195). 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.

(Expressed in U.S. Dollars)

10. **Supplemental Cash Flow Information**

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

	Three months ended 30 September **2017**	2016
Accounts receivable	$ 5,265	$ (72,152)
Prepaids and other	-	-
Accounts payable and accrued liabilities	(43,378)	(140,492)
Deposits	14,532	54,903
	$ (23,581)	$ (157,741)

Non-cash transactions excluded from the statements of cash flows (note 6 and 7)

(b) Cash and cash equivalents is comprised of:

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	30 September 2017	30 June 2017
Balances with banks in current accounts	$ 264,983	$ 297,231
Money market savings account	478,304	678,211
	$ 743,287	$ 975,442

(c) Net finance expense for the three months ended 30 September 2017 includes $2,000 in accretion expense (note 6) (2016 - $nil) net of finance income of $364 (2016 - $138).

11. **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 three months ended 30 September 2017, the Company incurred approximately $12,200 (2016 - $16,300) in costs payable to the outside firm for accounting services. Approximately $9,200 (2016 - $9,600) is included in general and administrative expenses and $3,000 (2016 - $6,700) was invoiced to joint venture partners as general and administrative expense recovery and included in accounts receivable at 30 September 2017. At 30 September 2017, amounts owing and included in due to related parties is $Nil (2016 – $Nil).

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 $92,500 (2016 - $94,400) for the three months ended 30 September 2017.

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 2017 is $88,200 (2016 - $60,500) and the capitalized portion is $nil (2016 - $nil).

(Expressed in U.S. Dollars)

12. Financial Instruments

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 month period ended 30 September 2017.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. As at 30 September 2017, the Company had a positive working capital of $698,740. The commodity price environment experienced during the period has negatively impacted earnings and operating cash flow.

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 the current price environment. 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 1, during the two years ended 30 June 2017, the Company was successful in completing three private placements generating gross proceeds of approximately $2,160,000. 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.

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	$ 96,638	$ -
Deposits	14,532	-
Accrued liabilities	-	63,048
	$ 111,170	$ 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.

The Company is also subject to commitments as disclosed in Note 13.

12. **Financial Instruments (continued)**

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 $1,050,620 at 30 September 2017 (30 June 2017 - $1,283,012). 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 2017, the Company recorded an allowance for doubtful accounts of $156,090 (30 June 2017 - $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 $48,172 (30 June 2017 - $39,528).

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.

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, the Australian dollar, and the Botswana pula 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 2017, $6,222 of cash and cash equivalents, $849 of accounts receivable and $26,061 of accounts payable are exposed to the Canadian dollar. As at 30 September 2017, $238,577 of cash and cash equivalents and $39,917 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 is minimal.

(Expressed in U.S. Dollars)

13. Capital Management

The Company's objective when managing capital is to progress the development of natural gas properties under Rhino by maintaining adequate cash resources to support its planned activities through the prudent deployment of capital. As noted above, the Company continues to focus on activities that represent the best, and highest use of available capital. The Company includes shareholders' equity in the definition of capital.

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 period.

The Company is not subject to externally imposed capital requirements.

Total capital managed is as follows:

	30 September 2017	30 June 2017
Shareholders' equity	**$ 12,528,459**	**$ 12,668,095**

Total capital managed decreased for the three months ended 30 September 2017 due to the overall use of cash in operating activities for the period.

14. Commitments

(a) Office lease

The Company entered into a rental agreement for office premises to 31 October 2017 for a total remaining obligation of approximately $2,000 excluding operating costs.

14. **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 on 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 September 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 $69,000 of license acquisition costs and other related costs as exploration and evaluation assets at 30 September 2017.