Petro Basin Energy Corp.

Condensed Interim Consolidated Financial Statements

June 30, 2015

(Expressed in Canadian dollars)

(Unaudited – prepared by management)

NOTICE TO READER

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

The accompanying condensed interim consolidated financial statements have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim financial statements by an entity's auditor.

Petro Basin Energy Corp.
Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Notes		June 30, 2015		December 31, 2014
ASSETS					
Current assets					
Cash		$	76,513	$	11,802
Trade and other receivables	4		8.639		15,112
Prepaids			4,600		6,250
Total current assets			89,752		33,164
Non-current assets					
Oil and gas properties	5		57,596		63,824
Exploration and evaluation assets	6		3,839		3,839
Total non-current assets			61,435		67,663
TOTAL ASSETS		$	151,187	$	100,827
LIABILITIES					
Current liabilities					
Trade and other payables	7	$	282,759	$	268,607
Due to related parties	9		133,853		122,603
Total current liabilities			416,612		391,210
Non-current liabilities					
Decommissioning liabilities	10		20,048		19,065
TOTAL LIABILITIES			436,660		410,275
SHAREHOLDERS' DEFICIENCY					
Share capital	11		7,982,061		7,882,061
Reserves	11		1,033,920		1,041,655
Accumulated deficit			(9,301,454)		(9,233,164)
TOTAL SHAREHOLDERS' DEFICIENCY			(285,473)		(309,448)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY		$	151,187	$	100,827

Nature and continuance of operations (Note 1)
Subsequent event (Note 14)

On behalf of the Board:

"Dennis Mee" Director *"Morgan Tincher"* Director

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Petro Basin Energy Corp.

Condensed Interim Consolidated Statements of Comprehensive Loss
(Expressed in Canadian dollars)

	Notes	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Sales of oil and gas					
Sales	11	$ 8,467	$ 17,727	$ 16,065	$ 34,938
Less: royalties		(468)	(834)	(917)	(1,552)
		7,999	16,893	15,148	33,386
Operating costs		3,932	2,609	8,562	7,996
Depletion, amortization and accretion		4,869	5,036	10,363	10,335
		8,801	7,645	18,925	18,331
Income (loss) from oil and gas operations		(802)	9,248	(3,777)	15,055
Expenses					
Professional and administrative services	8	2,650	11,223	10,500	19,423
Consulting and management fees	8	8,750	7,500	22,115	22,410
Regulatory and transfer agent fees		1,512	2,533	3,028	7,844
General and office		15,975	20,695	23,368	28,510
Filing fees		4,133	4,143	5,502	5,448
		33,020	46,094	64,513	83,635
Net loss from operating activities and loss for the period		(33,822)	(36,846)	(68,290)	(68,580)
Other comprehensive loss					
Foreign exchange gain (loss) on translation of foreign operations		1,950	(6,432)	(7,735)	676
Total other comprehensive loss		1,950	(6,432)	(7,735)	676
Total comprehensive loss for the period		$ (31,872)	$ (43,278)	$ (76,025)	$ (67,904)
Basic and diluted loss per common share		$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)
Weighted average number of common shares outstanding		20,774,396	20,774,396	20,774,396	20,774,396

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Petro Basin Energy Corp.

Condensed Interim Consolidated Statements of Changes in Equity

(Expressed in Canadian dollars)

	Share Capital		Reserves			
	Number of Shares	Amount	Equity Reserve	Foreign Currency Translation Reserve	Deficit	Total
Balance, December 31, 2013	20,774,396	$ 7,882,061	$ 1,048,050	$ (2,337)	$ (9,017,658)	$ (89,884)
Currency translation adjustment	-	-	-	676	-	676
Loss for the period	-	-	-	-	(68,580)	(68,580)
Balance, June 30, 2014	20,774,396	7,882,061	1,048,050	(1,661)	(9,086,238)	(157,788)
Currency translation adjustment				(4,734)		(4,734)
Loss for the period	-	-	-	-	(146,926)	(146,926)
Balance, December 31, 2014	20,774,396	7,882,061	1,048,050	(6,395)	(9,233,164)	(309,448)
Share capital issuance	5,000,000	100,000	-	-	-	100,000
Currency translation adjustment				(7,735)	-	(7,735)
Loss for the period	-	-	-	-	(68,290)	(68,290)
Balance, June 30, 2015	25,774,396	$ 7,982,061	$ 1,048,050	$ (14,130)	$ (9,301,454)	$ (285,473)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Petro Basin Energy Corp.
Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Six months Ended June 30, 2015	Six months Ended June 30, 2014
Cash provided by (used in):		
Operating activities		
Net loss for the period	$ (68,290)	$ (68,580)
Adjustments for:		
Depletion	9,692	10,335
Change in non-cash working capital items:		
Trade and other receivables	6,473	23,805
Prepaids	1,650	(1,250)
Trade and other payables	14,152	(5,025)
Due to related parties	11,250	1,650
Net cash used in operating activities	25,073	(39,065)
Investing activities		
Expenditures on oil and gas properties	-	-
Net cash used in investing activities	-	-
Financing activities		
Proceed from issuance of capital stock	100,000	-
Accretion (recovery) of decommissioning liabilities	671	-
Net cash provided by financing activities	100,671	-
Foreign exchange differences	(10,887)	666
Change in cash	64,711	(38,399)
Cash, beginning of the period	11,802	73,160
Cash, end of the period	$ 76,513	$ 34,761

There were no significant non-cash financing and investing transactions during the six months ended June 30, 2015.

Significant non-cash financing and investing transactions during the six months ended June 30, 2014 are $13,796 in oil and gas property costs that were included in trade and other payable.

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

1. Nature and continuance of operations

Petro Basin Energy Corp. (the "Company") is engaged in the exploration and production of oil and gas in Ontario (Canada) and Montana (USA). The address of the Company's registered office and its head office is Suite 1100 - 888 Dunsmuir Street Vancouver, BC, V6C 3K4.

On September 19, 2011, the Company announced that it was not able to maintain the requirements for a TSX Venture Tier 2 company on the TSX Venture Exchange ("TSX-V"), and thus, the Company's listing was transferred to the NEX Board ("NEX"). As a result of the transfer to the NEX, the Company is subject to restrictions on share issuances and certain types of payments as set out in the NEX policies.

Going concern

These condensed interim consolidated financial statements have been prepared on the assumption that the Company and its subsidiaries will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future.

At June 30, 2015, the Company had working capital deficiency of $326,860 (December 31, 2014 - $358,046) and had accumulated a deficit of $9,301,454 since inception. The Company has not yet reached a profitable level of production from its oil and gas operations. Realizing the carrying value of the Company's proven oil and gas properties requires continued cost efficient production or sale of the properties, and completing the exploration and development of its unproven oil and gas properties requires significant additional financing. While the Company has been successful in obtaining financing in the past, there is no assurance that it will be able to do so in the future. Additional financing will be required by the Company to explore and develop its unproven oil and gas properties and to carry out the business development required to achieve a self-sustaining level of revenue. These uncertainties may cast significant doubt about the Company's ability to continue as a going concern.

The recoverability of the amounts shown for oil and gas properties and exploration and evaluation assets is dependent upon such factors as the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development, and future profitable production or proceeds from disposition of such interests.

The condensed interim consolidated financial statements were authorized for issue on August 28, 2015 by the directors of the Company.

2. Significant accounting policies

Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" ("IAS 34") as issued by the International Financial Accounting Standards Board ("IASB"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

2. Significant accounting policies (cont'd)

Basis of presentation

The condensed interim financial statements have been prepared using the same accounting policies and methods as those used in the financial statements for the year ended December 31, 2014, except for the impact of the adoption of the accounting standard described below.

These condensed interim consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified at fair value through profit and loss, which are stated at their fair value and are presented in Canadian dollars, which is also the Company's functional currency, unless otherwise indicated. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and all of its subsidiaries. Subsidiaries are all entities controlled by the Company. Control exists when the Company has the power to, directly or indirectly; to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account in the assessment of whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date on which control ceases.

The financial statements at June 30, 2015, on a consolidated basis, include the assets, liabilities, revenues and expenses of the Company, and its wholly-owned subsidiaries Petro Basin Energy, LLC, 1084251 Ontario Inc, OSE Montana Corp. and OSE Texas Corp.

		Percentage owned*	
	Country of incorporation	**June 30, 2015**	**December 31, 2014**
1084251 Ontario Inc.	Canada	100%	100%
OSE Montana Corp.	U.S.A.	100%	100%
Petro Basin Energy, LLC	U.S.A.	100%	100%
OSE Texas Corp.	U.S.A.	100%	100%

*Percentage of voting power is in proportion to ownership.

All inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

(Expressed in Canadian dollars)

3. New and revised accounting standards, amendments and interpretations

The following new standards were adopted during the six months ended June 30, 2015:

IFRS 7 – Financial Instruments: Disclosure applies to additional disclosures required on transition from IAS 39 to IFRS 9. IFRS 7 was adopted effective January 1, 2015 and had no significant impact on the Company's financial statements.

IFRS 9 'Financial Instruments: Classification and Measurement' introduced new requirements for the classification and measurement of financial instruments. IFRS 9 was adopted effective January 1, 2015 and had no significant impact on the Company's financial statements.

The following new standards, and amendments to standards and interpretations, are not yet effective for the current period and have not been applied in preparing these financial statements. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

IAS 16 & IAS 38 – Classification of Acceptable Methods of Depreciation and Amortization clarifies that the use of a revenue-based depreciation and amortization method is not appropriated, and provides a rebuttable presumption for intangible assets. The effective date of IAS 16 & IAS 38 is January 1, 2016.

4. Trade and other receivables

		June 30, 2015		**December 31, 2014**
Taxes recoverable	$	2,957	$	7,436
Trade receivables		5,682		7,676
Total	$	8,639	$	15,112

(Expressed in Canadian dollars)

5. Oil and gas properties

Cost		Ontario, Canada		Montana, USA		Total
As at December 31, 2013	$	315,772	$	482,637	$	798,409
Foreign currency translation		-		4,972		4,972
As at December 31, 2014		315,772		487,609		803,381
Foreign currency translation		-		3,464		3,464
As at June 30, 2015	$	315,772	$	491,073	$	806,845
Depletion and impairment						
As at December 31, 2013	$	(303,659)	$	(415,022)	$	(718,681)
Depletion		(3,821)		(17,055)		(20,876)
As at December 31, 2014		(307,480)		(432,077)		(739,557)
Depletion		(2,615)		(7,077)		(9,692)
As at June 30, 2015	$	(310,095)	$	(439,154)	$	(749,249)
Net book value						
As at December 31, 2014	$	8,292	$	55,532	$	63,824
As at June 30, 2015	$	5,677	$	51,919	$	57,596

Ontario wells, Canada

At June 30, 2015 and December 31, 2014, the Company has an 8.36% working interest, subject to a 12.5% freehold royalty in producing oil wells located in Gosfield Township, Ontario.

Hawkins Well, Montana, USA

On August 16, 2011, the Company entered into an agreement, electing to participate as a non-operator in the drilling and completion of the Hawkins Well in Roosevelt County, Montana. The Company has a 3.125% working interest subject to a freehold royalty rate of 12.96% for a net revenue interest of 2.72%.

During the six months ended June 30, 2015, the Company incurred $nil (December 31, 2014 - $ nil) in drilling and completion costs. The Company also recorded an impairment charge of $nil (December 31, 2014 - $ nil).

(Expressed in Canadian dollars)

6. Exploration and evaluation assets

		Montana, USA
As at December 31, 2014 and June 30, 2015	$	3,839

Oil and gas leases, Montana, USA

During the year ended December 31, 2008, the Company purchased working interests ranging from 25% to 100% in certain oil and gas leases in the state of Montana. These leases are subject to 12.5% to 16.67% gross over-riding royalty interests on production held by the land-owners.

During the year ended December 31, 2010, the Company sold certain interests in properties owned by its subsidiary, OSE Montana Corp. to an arms-length party and now holds an Overriding Royalty Interest of 2.5% of oil, gas and minerals produced from or pursuant to each of the Leases assigned pursuant to the Agreement.

On November 19, 2012, the Company completed a purchase and sale agreement (the "Agreement") dated November 7, 2012 between the Company's wholly owned subsidiary, Petro Basin Energy, LLC and Community Petroleum, LLC, where, pursuant to the terms of the Agreement, Community Petroleum, LLC purchased, for USD $100,000 (CAD $105,260), property comprising certain net mineral acres and assets located in Richland, Roosevelt and Sheridan Counties, Montana, U.S.A., including without limitation, the leases attached to the acreage. The Company incurred costs totaling $33,405 relating to the purchase.

During the six months ended June 30, 2015, the Company made payments of $nil (December 31, 2014 - $nil) to maintain its interest in the properties. During the year ended December 31, 2013 certain leases were terminated and the Company impaired exploration and evaluation assets by $204,504. The remaining balance in exploration and evaluation assets of $3,839 represents the interest that is in good standing.

7. Trade and other payables

		June 30, 2015		December 31, 2014
Trade payables	$	279,759	$	247,607
Accrued liabilities		3,000		21,000
Total	$	282,759	$	268,607

8. Line of credit

On March 25, 2015, the Company entered into a line of credit agreement with Charterhouse Capital Inc. ("Charterhouse") whereby Charterhouse provided a line of credit to the Company in the principal amount of $500,000. Amounts drawn against the line of credit are due on demand and interest bearing at a rate of 6% per annum. To date, the Company has drawn $nil against the line of credit.

(Expressed in Canadian dollars)

9. Related party transactions

The Company entered into the following transactions with related parties during the periods ended June 30, 2015 and 2014:

Key management personnel compensation:

		2015		**2014**
Consulting and management fees	$	16,250	$	16,250
Professional fees		-		7,884
Share issuance costs		-		-
Total	$	16,250	$	24,134

Due to related parties:

		June 30, 2015		**December 31, 2014**
Amounts due to a director or a company controlled by a director	$	77,853	$	66,603
Amounts due to shareholders		56,000		56,000
Total	$	133,853	$	122,603

These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

10. Decommissioning liabilities

The Company's decommissioning liabilities arise from working interests in oil and gas assets including well sites, gathering systems and processing facilities. The decommissioning liabilities represent the present value of decommission costs relating to oil and gas properties, which costs are expected to be incurred up to 2045. The Company's obligations at June 30, 2015 reflect the present value of the liability using a weighted average credit-adjusted risk-free rate of 1.6% (December 31, 2014 - 2.22%) and an inflation rate of 0.98% (December 31, 2014 - 1.4%).

		June 30, 2015		**December 31, 2014**
Balance, beginning of the year	$	19,065	$	14,744
Accretion expense		983		4,321
Balance, end of the period	$	20,048	$	19,065

(Expressed in Canadian dollars)

11. Share capital

Authorized share capital

Preferred shares
500,000 non-participating, voting preferred shares.
Issued: Nil.

Common shares
Unlimited number of common shares.

(a) Issued share capital

As at June 30, 2015 the issued and outstanding share capital is comprised of 25,774,396 common shares (December 31, 2014 - 20,774,396).

On June 24, 2015, the Company closed a non-brokered private placement of units of 5,000,000 units at a price of $0.02 per Unit for total proceeds of $100,000. Each Unit consists of one common share and one share purchase warrant. Each Warrant entitles the holder to purchase one additional share at a price of $0.05 until June 24, 2016.

(b) Reserves

Equity reserve records items recognized as share-based payments until such time that the stock options and share purchase warrants are exercised, at which time the corresponding amount will be transferred to share capital.

Foreign currency translation reserve records exchange differences arising from translation of the Company's subsidiaries' results and financial position from their functional currencies into the presentation currency.

(c) Share purchase warrants

	Number of warrants	Exercise price	Expiry date
Balance, December 31, 2013	5,000,000	0.05	
Expired	(5,000,000)	(0.05)	
Balance, December 31, 2014	-	-	
Issued	5,000,000	0.05	June 24, 2016
Balance, June 30, 2015	5,000,000	0.05	

(d) Share-based payments

The Company has a rolling stock option plan (the "Plan") to provide incentive for the directors, officers, employees and consultants of the Company. The maximum number of shares which may be set aside for issuance under the Plan is 10% of the issued and outstanding common shares of the Company.

The exercise price of options granted under the Plan will be fixed by the Board at the time of grant, provided that such exercise price may not be less than the discounted market price of the common shares. The options granted under the Plan will vest and be exercisable on a basis determined by the board at the time of the grant, and will be exercisable for a period not exceeding ten years.

As at June 30, 2015 and December 31, 2014, there were no stock options outstanding.

(Expressed in Canadian dollars)

12. Segmented information

The Company operates in two reporting segments; Canada and the USA. Set out below is segmented information on a geographic basis.

	Six months ended June 30, 2015			Year ended December 31, 2014		
	Canada	**USA**	**Total**	**Canada**	**USA**	**Total**
Revenue from oil and gas sales, net of royalties	$ 6,886	$ 8,262	$ 15,148	$ 21,810	$ 39,413	$ 61,223
Operating costs	(1,646)	(6,916)	(8,562)	(10)	(14,971)	(14,981)
Depletion and accretion	(3,355)	(7,008)	(10,363)	(7,041)	(17,778)	(24,819)
Impairment of exploration and evaluation assets	-	-	-	-	-	-
Impairment of oil and gas properties	-	-	-	-	-	-
Expenses	(64,222)	(291)	(64,513)	(177,089)	(59,840)	(236,929)
Loss for the period	$ (62,337)	$ (5,953)	$ (68,290)	$ (162,330)	$ (53,176)	$ (215,506)

The segmented non-current assets and non-current liabilities are as follows:

	June 30, 2015			December 31, 2014		
	Canada	**USA**	**Total**	**Canada**	**USA**	**Total**
Non-current assets	$ 5,677	$ 55,758	$ 61,435	$ 8,293	$ 59,370	$ 67,663
Non-current liabilities	14,416	5,632	20,048	13,677	5,388	19,065

13. Financial instruments

The Company's financial instruments are exposed to certain financial risks, including credit risk, capital market risk and liquidity risk, interest rate risk, commodity price risk and foreign exchange risk.

Financial instruments, consisting of trade receivables, trade payables and due to related parties are carried at amortized cost. Cash is reported at fair value. The Company classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Cash has been assessed on the fair value hierarchy described above and is considered to be Level 1.

As at June 30, 2015, the carrying values of cash, trade and other receivables, trade and other payables, and due to related parties approximate their fair values due to their short terms to maturity.

(Expressed in Canadian dollars)

13. Financial instruments (cont'd)

Credit risk

Credit risk is the risk that a counterparty will fail to discharge an obligation and cause the Company to incur a financial loss. The Company's primary exposure to credit risk relates to its cash held in bank accounts. This includes any cash amounts owed to the Company by those counterparties, less any amounts owed to the counterparty by the Company where a legal right of off-set exists and also includes the fair values of contracts with individual counterparties which are recorded in the financial statements.

(a) Trade credit risk

The Company's trade receivables are due from operators of its oil and gas properties, whose revenue may be affected by fluctuation in oil and natural gas prices. The Company generally extends unsecured credit to its customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by the size and reputation of the company to which they extend credit. The Company has not experienced any credit loss in the collection of trade receivables to date. The carrying value of trade receivables reflects management's assessment of the associated risk.

The following is a schedule of the Company's trade receivables:

		June 30, 2015		**December 31, 2014**
Less than 30 days	$	4,777	$	4,273
31 to 60 days		-		10,121
61 to 90 days		905		12,649
Greater than 90 days		-		-
	$	5,682	$	27,043

(a) Cash

In order to manage credit and liquidity risk the Company invests only in highly rated investment grade instruments that have maturities of a year or less. Limits are also established based on the type of investment, the counterparty and the credit rating.

(b) Derivative financial instruments

As at June 30, 2015, the Company has no derivative financial instruments. It may in the future enter into derivative financial instruments and in order to manage credit or price risk, it will only enter into derivative financial instruments with highly rated investment grade counterparties.

Capital market risk and liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

The Company is in a position of un-notified default in respect of its share of participation costs on an exploration block located in the Scurry County prospect area, pursuant to a joint operating agreement. The exploration block is included in the Company's oil and gas leases located in Montana, USA (Note 6). The Company owes approximately $12,000 to the operator of the participation area for its share of drilling costs on the initial well. As a result of the Company's un-remedied default, the operator has the right to foreclose on the Company's participation rights on that exploration block.

13. Financial instruments (cont'd)

The following is an analysis of the contractual maturities of the Company's non-derivative financial liabilities as at June 30, 2015:

		Within one year		Between one and five years		Total
Trade payables	$	282,759	$	-	$	282,759
Due to related parties		133,853		-		133,853
	$	416,612	$	-	$	416,612

Interest rate risk

The Company is not exposed to material interest-rate risk as the Company had no interest-bearing debt as of June 30, 2015.

Commodity price risk

The Company is exposed to material oil and gas commodity price risk. A decrease in the price of oil and gas would reduce the Company's cash flows, reduce the realizable market value of the Company's oil and gas assets, reduce the Company's economic reserves, and make it more difficult for the Company to raise the equity capital required to meet its commitments and carry out its development-stage business plans. Management has assessed that the Company's degree of exposure to commodity price risk is material, but consistent with the development stage oil and gas business operations. The Company does not use financial derivative sales contract to hedge commodity prick risk.

Foreign exchange risk

The Company is subject to foreign exchange risk as fluctuations in the value of the Canadian dollar relative to the United States dollar impact the realized Canadian dollar value of its oil sales (as oil is denominated in United States dollars), while certain operating expenses and lease payments are primarily incurred in Canadian dollars.

Sensitivity analysis

The Company's operational results and financial position are materially impacted by global financial and commodity market volatility over which it has no control. The following sensitivity analysis is suggestive of ways in which the financial results of the Company may reasonably be expected to be directly impacted by volatility in those markets.

(i) The Company is exposed to foreign currency risk on its US dollar denominated assets and financial liabilities. At June 30, 2015, the Canadian dollar cost of paying the Company's US dollar denominated liabilities and property payment commitments would increase by approximately $1,890 with a 1% increase in the value of the US dollar relative to the Canadian dollar.

(ii) Oil and gas revenues would be impacted by changes in oil and gas prices. As at June 30, 2015, for a 1% increase/decrease in the cost of oil and gas, revenue would increase/decrease by approximately $40 per year based upon June 2015 prices and volumes.

Commodity price risk affects the Company beyond its impact on realized revenue. In particular, the Company's future ability to raise capital for development stage activities is affected by, among many other factors, the price of oil and gas. Furthermore, changes in commodity prices will also affect the price of oil and gas leases, as well as exploration and drilling services and operating costs. Changes in oil and gas prices will also determine the Company's ultimate recoverable reserves.

14. Capital management

The primary capital management objective of the Company is to ensure adequate working capital is available to fund both its oil and gas exploration and development, and the working capital requirements, while also seeking to minimize the risk-adjusted cost of capital.

Capital is raised and retained for the purposes and to the extent necessary to fund exploration and corporate overhead costs, subject to the availability of financing on acceptable terms. Given its objectives, the Company determines the amount of capital to be raised and retained based on the scope of its planned exploration activities and management's assessment of the expected availability of acceptably priced capital in future periods.

The Company defines capital as share capital, share subscriptions and reserves. The Company's targeted capital structure approaches 100% shareholder equity, with little or no debt outstanding. Management believes that such a capital structure is the most suitable in light of the Company's capital management objectives.

As the Company's major asset class - oil and gas properties without significant production - is highly illiquid, requiring significant additional expenditures to be fully monetized, and as the Company is not yet earning profits from oil and gas operations, management of externally financed working capital is, by necessity, a major function of the Company's capital management program. The chief source of working capital is equity financing obtained through the sale of common shares and share purchase warrants, and the exercise of warrants and options. The Company from time to time receives loans from related parties and trade credit, but such financial instruments are typically only supplementary to equity financings. In any case, the Company does not consider debt to be a sustainable source of capital, as in the absence of positive cash flows from operations; any debt obtained must be retired with funds raised through equity financing.

A significant measure used in assessing capital adequacy is the expected number of days of operations that can be funded from current working capital. Capital levels are deemed sufficient if they can fund the balance of the annual exploration and development goals and fund corporate overhead expenses in the near term. The Company lacks sufficient capital to carry out its activities over the next twelve months and additional capital will, therefore, need to be raised.

Financing, and thus capital spending on exploration, will generally be limited to the extent that capital is available on acceptable terms. The acceptability of financing terms is generally determined by reference to the prevailing market price of the Company's shares. The terms on which the Company obtains financings are furthermore subject to the guidelines of the TSX-V.

15. Subsequent events

On July 6, 2015, the Company announced that it finalized a letter of intent with Breathtec Biomedical, Inc. for the purpose of the Company completing a plan of arrangement under the Business Corporations Act. The Company entered into an arrangement dated June 25, 2015 with PBA Acquisitions Corp. a company incorporated in order to effect the arrangement. The LOI contemplates that subsequent to and subject to the completion of the arrangement, PBA Acquisitions Corp. anticipates entering into a definitive agreement with Breathtec involving a potential business combination.

On August 10, 2015, the Company announced that its shareholders and the Ontario Superior Court of Justice have approved the plan of arrangement on July 30, 2015 and August 5, 2015 respectively.