HalioEnergy

HALIO ENERGY INC.

CONDENSED INTERIM FINANCIAL STATEMENTS
(Unaudited)

FOR THE THREE MONTHS ENDED OCTOBER 31, 2018 and 2017

(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The management of Halio Energy Inc. is responsible for the preparation of the accompanying unaudited condensed interim financial statements. The unaudited condensed interim financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards for the preparation of condensed interim financial statements and are in accordance with IAS 34 – Interim Financial Reporting.

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

HALIO ENERGY INC.

CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian Dollars)

	Unaudited October 31, 2018	Audited July 31, 2018
ASSETS		
Current assets		
Cash	$ 5,928	$ 6,094
Receivables – Note 4	5,900	5,628
Total current assets	11,828	11,722
Total assets	$ 11,828	$ 11,722
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities – Notes 6	$ 381,445	$ 359,816
Due to related parties – Note 10	264,202	222,202
Loans payable – Note 7	683,238	653,853
Total current liabilities	1,328,885	1,235,871
SHAREHOLDERS' DEFICIENCY		
Share capital – Note 8	5,472,133	5,472,133
Reserves – Note 8	582,758	582,758
Accumulated deficit	(7,371,948)	(7,279,040)
Total shareholders' deficiency	(1,317,057)	(1,224,149)
Total liabilities and shareholders' deficiency	$ 11,828	$ 11,722

Nature and Continuance of Operations (Note 1)

APPROVED BY THE DIRECTORS:

"Charles Ross"	Director	*"Miodrag Andric"*	Director
Charles Ross		Miodrag Andric	

HALIO ENERGY INC.
CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)
(Expressed in Canadian Dollars)

	Three months ended October 31, 2018	2017
Operating expenses		
Consulting – Note 10	$ 42,000	$ 42,000
Management and directors' fees – Note 10	21,000	21,000
Office and miscellaneous	4,279	10,044
Professional fees	4,954	3,784
Transfer agent and filing fees	1,174	2,910
Travel and promotion	-	875
	(73,407)	(80,613)
Other income	23	-
Interest expense	(12,458)	(4,895)
Unrealized foreign exchange gain (loss)	(7,066)	(10,928)
	(19,501)	(15,823)
Net comprehensive loss for the period	$ (92,908)	$ (96,436)
Loss per share – basic and diluted – Note 9	$ (0.00)	$ (0.00)
Weighted average number of shares outstanding – basic and diluted – Note 9	25,027,309	25,019,700

HALIO ENERGY INC.
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)
(Expressed in Canadian Dollars)

	Three months ended October 31, 2018	2017
Operating Activities		
Loss for the period	$ (92,908)	$ (96,436)
Adjustments for non-cash items:		
Accrued interest payable	12,458	4,895
Unrealized foreign exchange	6,927	7,596
Changes in non-cash working capital items:		
Receivables	(272)	5,100
Accounts payable and accrued liabilities	21,629	31,785
Due to related parties	42,000	43,053
Cash used in operating activities	(10,166)	(4,007)
Financing Activities		
Loan proceeds	10,000	42,692
Cash provided by financing activities	10,000	42,692
Decrease in cash during the period	(166)	38,685
Cash, beginning of the period	6,094	9,472
Cash, end of the period	$ 5,928	$ 48,157

Supplemental disclosure with respect to cash flows (Note 12)

HALIO ENERGY INC.
CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)
(Unaudited)
(Expressed in Canadian Dollars)

	Share Capital		Share		Accumulated	
	Number of shares	Amount	Subscriptions	Reserves	Deficit	Total
Balance, July 31, 2017	25,002,309	$ 5,442,133	$ 30,000	$ 582,758	$ (5,996,616)	$ 58,275
Private placements	25,000	30,000	(30,000)	-	-	-
Loss for the period	-	-	-	-	(96,436)	(96,436)
Balance October 31, 2017	25,027,309	$ 5,472,133	$ -	$ 582,758	$ (6,093,052)	$ (38,161)
Balance, July 31, 2018	25,027,309	$ 5,472,133	$ -	$ 582,758	$ (7,279,040)	$ (1,224,149)
Loss for the period	-	-	-	-	(92,908)	(92,908)
Balance, October 31, 2018	25,027,309	$ 5,472,133	$ -	$ 582,758	$ (7,371,948)	$ (1,317,057)

The accompanying notes form an integral part of these financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Halio Energy Inc. (TSX-V: HOIL) (the "Company") was incorporated on April 23, 2007, under the British Columbia Company Act and is listed on the TSX Venture Exchange. The Company is engaged in investing in North American-based oil and gas upstream and producing properties, and intends to procure direct working interests on a non-operated basis as well as limited partnership, joint venture, and MLP interests. The Company's head office, records office and principal business address is Suite 2300 - 1177 West Hastings Street, Vancouver, British Columbia, V6E 2K3.

These condensed interim financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realization of assets and discharge of liabilities in the normal course of business. At October 31, 2018, the Company had a working capital deficiency of $1,317,057 (July 31, 2018 - $1,224,149), had not yet achieved profitable operations and has an accumulated deficit of $7,371,948 (July 31, 2018 - $7,279,040) since its inception. The Company expects to incur further losses in the development of its business, all of which cast substantial doubt on the Company's ability to continue as a going concern.

The Company will require additional financing in order to conduct its planned work programs on its exploration and evaluation assets, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. Accordingly, these condensed interim financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not used then the adjustments required to report the Company's assets and liabilities on a liquidation basis could be material to these condensed interim financial statements.

2. BASIS OF PREPARATION

These condensed interim financial statements of the Company have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Therefore, these condensed interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company's most recently issued audited financial statements for the year ended July 31, 2018, which includes information necessary or useful to understanding the Company's business and financial statement presentation. In particular, the Company's significant accounting policies, use of judgements and estimates were presented in Note 2 and Note 3 of the audited financial statements, and have been consistently applied in the preparation of these condensed interim financial statements.

These condensed interim financial statements were authorized for issue by the Board of Directors on April 24, 2019

(Expressed in Canadian Dollars)

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

IFRS 16 – Leases ("IFRS 16")
On January 13, 2016, the IASB issued the final version of IFRS 16 Leases. The new standard will replace IAS 17 Leases and is effective for annual periods beginning on or after January 1, 2019. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases applying IAS 17. IFRS 16 does not require a lessee to recognize assets and liabilities for short term leases (i.e. leases of 12 months or less) and leases of low-value assets.

4. RECEIVABLES

The Company's receivables comprise goods and services tax ("GST") receivable due from Canadian government taxation authorities.

5. EXPLORATION AND EVALUATION ASSETS

The Company had no exploration and evaluation assets at October 31, 2018 and July 31, 2018.

	July 31, 2017	Expenditures	Impairment	July 31, 2018
	$	$	$	$
Western Idaho Basin - Oregon				
Deferred exploration costs	572,560	344,473	(917,033)	-
Total	572,560	344,473	(917,033)	-

Deferred exploration costs were as follows:

	Western Idaho Basin, Oregon	Total
	$	$
Balance, July 31, 2017	572,560	572,560
Exploration:		
Licensing	343,055	343,055
Geology and geophysics	1,418	1,418
	344,473	344,473
Balance, July 31, 2018	917,033	917,033

(Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS (continued)

Oregon's Western Idaho Basin

On October 3, 2016, the Company signed a Farm-out Agreement with Trendwell West Inc. ("Trendwell") to drill several high-priority oil and gas prospects in Oregon's Western Idaho Basin. Subject to the Company completing a financing, the Company will have the option to earn a 50% interest in the project by paying $6 million USD in costs related to the development of the wells.

During the three months ended October 31, 2018, the Company incurred $nil (year ended July 31, 2018 - $344,473) in costs related to the development of the well.

On April 16, 2018, Trendwell terminated the Farm-out Agreement after the Company failed to provide the evidence of sufficient financing to fulfil its obligation to expend the remaining cost of development. As a result, the Company wrote off the carrying value of the property.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities recognized in the statement of financial position can be analyzed as follows:

	October 31, 2018	July 31, 2018
	$	$
Trade payables	381,445	339,816
Accrued liabilities	-	20,000
Total payables	381,445	359,816

All amounts are short-term. The carrying value of trade payables and accrued liabilities is considered a reasonable approximation of fair value.

7. LOANS PAYABLE

On March 7, 2017, the Company obtained a loan from a consultant in the amount of $3,000. The loan was repayable on demand, is unsecured, and bore interest at the monthly average rate of Bank of Montreal Prime Lending Rate calculated annually. During the year ended July 31, 2018, the Company has recorded $29 (2017 - $32) as interest expense and the loan was assumed by a company controlled by the CFO and included in its loan extended to the Company.

On March 7, 2017, the Company obtained a loan from a company controlled by the CFO in the amount of $1,500. The loan is repayable on demand, is unsecured, and bears interest at the monthly average rate of Bank of Montreal Prime Lending Rate calculated annually. During the year ended July 31, 2017, the Company received further advances of $5,680 as part of the loan. During the year ended July 31, 2018, the Company received further advances of $2,140 as part of the loan, assumed the loan from a consultant of $3,061. During the three months ended October 31, 2018, the Company recorded an interest expense of $84 (2017 – $49) on the loan.

(Expressed in Canadian Dollars)

7. LOANS PAYABLE (continued)

On July 17, 2017, the Company obtained a loan from a third party in the amount of USD $171,206. The loan is repayable on demand, is unsecured, and bears 8% interest per annum. During the year ended July 31, 2017, the Company received further advances of USD $13,008 as part of the loan. During the year ended July 31, 2018, the Company received further advances of USD $282,831 as part of the loan. During the three months ended October 31, 2018, the Company received further advances of USD $7,812 and recorded an interest expense of USD $9,415 (2017 – USD $3,743) on the loan.

8. SHARE CAPITAL AND RESERVES

Authorized: An unlimited number of common shares, without par value

On August 29, 2017, the Company completed a non-brokered private placement by issuing 25,000 shares, at a price of $1.20 per share, to raise aggregate gross proceeds of $30,000.

(a) Share purchase warrants

The following is a summary of changes in share purchase warrants from July 31, 2017 to October 31, 2018:

	Number	Weighted Average Exercise Price
Balance, July 31, 2017 and 2018	22,663,233	$0.11
Expired	281,733	$1.50
Balance, October 31, 2018	22,381,500	$0.10

At October 31, 2018, the Company had 22,381,500 share purchase warrants outstanding. Each warrant entitles the holder the right to purchase one common share as follows:

Number	Exercise Price	Expiry Date
22,000,000	$0.09	June 8, 2021
381,500	$0.50	June 27, 2021
22,381,500		

(a) Share-based payments

The Company has a Stock Option Plan ("the Plan") under which it is authorized to grant options to directors, officers, consultants or employees of the Company. The number of options granted under the Plan is limited to 10% in the aggregate of the number of issued and outstanding common shares of the Company at the date of grant of the options. The exercise price of options granted under the Plan may not be less than the discounted market price of the Company's common shares at the date the options are granted.

Options granted under the Plan vest at the discretion of the Board of Directors and have a maximum life of five years.

The Company had no stock options outstanding at October 31, 2018 and July 31, 2018.

(Expressed in Canadian Dollars)

9. LOSS PER SHARE

The calculation of basic and diluted loss per share was based on the following data:

	Three months ended October 31, 2018	Three months ended October 31, 2017
Net Loss	$ (92,908)	$ (96,436)
Loss per share	$ (0.00)	$ (0.00)
Weighted average number of common shares for the purpose of basic and diluted loss per share	25,027,309	25,019,700

Basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution of common share equivalents, such as stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive. All of the stock options and share purchase warrants currently issued (see Note 8) were anti-dilutive for the three months ended October 31, 2018 and 2017.

10. RELATED PARTY TRANSACTIONS

Key management personnel compensation

Key management of the Company are directors and officers of the Company and their remuneration includes the following:

	Three months ended October 31, 2018	Three months ended October 31, 2017
Management and director's fees	$ 21,000	$ 21,000
Consultancy fees	21,000	21,000
	$ 42,000	$ 42,000

Related party balances

The following amounts are due to related parties:

	October 31, 2018	July 31, 2018
CEO for consulting fee	$ 105,000	$ 84,000
CEO for travel and miscellaneous expenses	1,838	1,838
A company controlled by CFO for management fee	157,364	136,364
	$ 264,202	$ 222,202

At October 31, 2018, the Company had an outstanding loan in the amount of $12,381 (July 31, 2018 - $12,381). During the three months ended October 31, 2018, the Company recorded an interest expense of $84 (2017 – $49) on the loan payable to the CFO (See Note 7).

11. SEGMENTAL REPORTING

At October 31, 2018 and July 31, 2018, the Company operated in one business segment, being the acquisition and exploration of oil and gas properties located in North America.

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Exploration and evaluation assets included in accounts payable amounted to $nil as at October 31, 2018 ($124,309 as at October 31, 2017).

Shares issued against share subscriptions advanced amounted to $nil for the period ended October 31, 2018 ($30,000 for period ended October 31, 2017).

13. CAPITAL DISCLOSURE

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern to pursue the development of its exploration and evaluation assets and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of shareholders' deficiency, which at October 31, 2018 was $1,317,057 (July 31, 2018: $1,224,149).

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt and acquire or dispose of assets. As at October 31, 2018, the Company has not entered into any debt financing with any financial institution.

The Company is dependent on the capital markets as its sole source of operating capital and the Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for investor support of its projects. The Company is not subject to any externally imposed capital requirements. There has been no change in the Company's approach to capital management during the period ended October 31, 2018.

14. FINANCIAL INSTRUMENTS AND RISK

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

14. FINANCIAL INSTRUMENTS AND RISK (continued)

The fair value of the Company's receivables, accounts payable and accrued liabilities, due to related parties, and loans payable approximate their carrying values due to the short-term to maturity. The Company's cash is measured at fair value using Level 1 inputs.

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. As at October 31, 2018, the Company has financial liabilities denominated in the US dollar amounting to USD $520,800 (July 31, 2018 – USD $492,549) that are subject to fluctuations as a result of exchange rate variations. The Canadian dollar equivalent of these financial liabilities is $684,435 (July 31, 2018 – $641,151). The Company has determined that an effect of 10% increase or decrease in the US dollar against the Canadian dollar on financial liabilities as at October 31, 2018, would result in an increase or decrease of $68,444 to the net loss for the period ended October 31, 2018 (July 31, 2018 - $64,115). The Company does not hedge its foreign exchange risk.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness, while receivables are comprised of GST. As at October 31, 2018, the Company is not exposed to any significant credit risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Included in the loss for the year in the financial statements is interest expense on loans payable and interest income on Canadian dollar cash. The Company has debt instruments at variable rates and is therefore exposed to risk in the event of interest rate fluctuations. The Company has determined that a change of 10% in the interest rates will have an insignificant impact on the net loss for the period ended October 31, 2018.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. The Company addresses its liquidity through equity financing obtained through the sale of common shares and the exercise of warrants and options or various forms of debt financing as necessary. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future.

14. FINANCIAL INSTRUMENTS AND RISK (continued)

Price Risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors the commodity prices of precious metals and the stock market to determine the appropriate course of action to be taken by the Company.