STRATA-X ENERGY LTD.
Audited Consolidated Financial Statements
Years Ended 30 June 2013 and 2012
(Expressed in U.S. Dollars)

STRATA-X ENERGY LTD.

Consolidated Statements of Financial Position

30 June 2013 and 30 June 2012

(Expressed in U.S. Dollars)

	30 June 2013	30 June 2012
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 8,566,438	$ 2,283,006
Accounts receivable	78,642	311,353
Subscription receivable	-	1,120,001
Prepaids and other	13,779	33,390
Total current assets	8,658,859	3,747,750
Other assets (Note 5)	225,836	175,452
Exploration and evaluation assets (Note 6)	12,303,585	3,481,188
Property and equipment (Note 9)	526,114	161,358
Total assets	$ 21,714,394	$ 7,565,748
LIABILITIES:		
Current liabilities:		
Accounts payable and accrued liabilities	$ 689,323	$ 1,335,644
Convertible debentures (Note 8)	-	2,705,442
Derivative financial liabilities (Note 8)	-	258,404
Deposits	24,900	-
Amounts due to related parties (Notes 7 and 16)	76,550	198,639
Derivative warrants (Note 11)	23,278	503,322
Total current liabilities	814,051	5,001,451
Derivative warrants (Note 11)	883,371	52,307
Accrued liabilities	63,048	12,000
Decommissioning provisions (Note 10)	639,061	571,719
Total liabilities	2,399,531	5,637,477
SHAREHOLDERS' EQUITY:		
Share capital (Note 11)	26,674,351	7,893,217
Share based compensation reserve	930,617	376,506
Warrant reserve	890,954	586,304
Contributed surplus (Note 12)	22,066,879	22,066,879
Accumulated other comprehensive income	(883,488)	22,501
Deficit	(30,364,450)	(29,017,136)
Total shareholders' equity	19,314,863	1,928,271
Total liabilities and shareholders' equity	$ 21,714,394	$ 7,565,748

Approved on behalf of the Board

Director   Director

See accompanying notes

STRATA-X ENERGY LTD.
Consolidated Statements of Comprehensive Loss
For the Years Ended 30 June 2013 and 30 June 2012
(Expressed in U.S. Dollars)

	2013	2012
Oil and gas revenue	$ 128,818	$ 120,124
Expenses		
Production and exploration	381,942	645,747
General and administrative	1,881,393	992,053
Depletion, depreciation and amortization	42,953	19,517
Expenses relating to qualifying transaction	-	2,112,734
Impairment of oil and gas properties	40,564	1,811,750
Dry hole costs	126,075	821,207
	2,472,927	6,403,008
Loss before other income	(2,344,109)	(6,282,884)
Other income	31,796	22,531
Net operating loss	(2,312,313)	(6,260,353)
Gain on valuation of derivative liabilities	530,850	-
Gain on conversion of convertible debentures	715,355	-
Net finance expense	(281,206)	(15,896)
Net loss	(1,347,314)	(6,276,249)
Other comprehensive income (loss)		
Items that will not be reclassified subsequently to profit or loss	-	-
Items that may be reclassified subsequently to profit or loss		
Exchange differences in translating foreign operations	(905,989)	22,501
Other comprehensive income (loss) for the period	(905,989)	22,501
Comprehensive loss	$ (2,253,303)	$ (6,253,748)
Net loss per common share, basic and diluted (Note 13)	$ (0.02)	$ (0.17)

See accompanying notes

STRATA-X ENERGY LTD.
Consolidated Statements of Changes in Equity
For the Years Ended 30 June 2013 and 30 June 2012
(Expressed in U.S. Dollars)

	Share Capital	Compensation Reserve	Warrants Reserve	Contributed Surplus	Comprehensive Income	Deficit	Total
Balance, 1 July 2012	$ 7,893,217	$ 376,506	$ 586,304	$ 22,066,879	$ 22,501	$ (29,017,136)	$ 1,928,271
Private placement, 13 July 2012 (Note 11)	67,620	-	-	-	-	-	67,620
Shares issued in consideration for an extension agreement for certain oil and gas interests (Note 11)	300,761	-	-	-	-	-	300,761
Shares issued in consideration for acquisiton of working interest in oil and gas property (Note 11)	762,517	-	-	-	-	-	762,517
Private placement, 31 October 2012 (Note 11)	244,032	-	-	-	-	-	244,032
Stock options issued (Note 11)	-	554,111	-	-	-	-	554,111
Exercise of stock options (Note 11)	110,573	-	-	-	-	-	110,573
Finders warrants issued (Note 11)	-	-	304,650	-	-	-	304,650
Shares issued on conversion of convertible debentures, net of issuance costs (Note 11)	5,882,168	-	-	-	-	-	5,882,168
Shares issued on conversion of accrued interest of convertible debentures (Note 11)	111,408	-	-	-	-	-	111,408
Shares issued in Australian public offering, net of issuance costs	11,302,055	-	-	-	-	-	11,302,055
Comprehensive loss	-	-	-	-	(905,989)	(1,347,314)	(2,253,303)
Balance, 30 June 2013	$ 26,674,351	$ 930,617	$ 890,954	$ 22,066,879	$ (883,488)	$ (30,364,450)	$ 19,314,863

STRATA-X ENERGY LTD.

Consolidated Statements of Changes in Equity
For the Years Ended 30 June 2013 and 30 June 2012
(Expressed in U.S. Dollars)

	Share Capital	Share based Compensation Reserve	Warrants Reserve	Contributed Surplus	Other Comprehensive Income	Deficit	Total
Balance, 1 July 2011	$ 2,797,000	$ -	$ -	$ 22,066,879	$ -	$ (22,740,887)	$ 2,122,992
Recapitalization of share capital through (Note 11):							
Exchange of Strata-X, Inc. shares for Strata-X Ltd.	-	-	-	-	-	-	-
shares in reverse acquisition transaction	-	-	-	-	-	-	-
Existing common shares of Strata-X Ltd. and value attributable to consideration in reverse acquisition transaction	2,114,150	-	385,850	-	-	-	2,500,000
Stock options issued	-	376,506	-	-	-	-	376,506
Private placement, 22 September 2011 (Note 11)	2,694,956	-	53,704	-	-	-	2,748,660
Private placement, 29 June 2012 (Note 11)	257,008	-	146,750	-	-	-	403,758
Exercise of stock options (Note 11)	30,103	-	-	-	-	-	30,103
Comprehensive loss	-	-	-	-	22,501	(6,276,249)	(6,253,748)
Balance, 30 June 2012	$ 7,893,217	$ 376,506	$ 586,304	$ 22,066,879	$ 22,501	$ (29,017,136)	$ 1,928,271

See accompanying notes

STRATA-X ENERGY LTD.
Consolidated Statements of Cash Flows
For the Years Ended 30 June 2013 and 30 June 2012
(Expressed in U.S. Dollars)

	2013	2012
Cash and cash equivalents provided by (used in):		
Operating activities:		
Net loss for the period	$ (1,347,314)	$ (6,276,249)
Adjustments for:		
Depletion, depreciation and amortization	42,953	19,517
Accretion of decommissioning provisions	19,972	23,074
Accretion of convertible debenture liability	197,281	-
Share-based compensation	554,111	376,506
Impairment of oil and gas properties	40,564	1,811,750
Dry hole costs	126,075	821,207
Accrued interest converted to share capital and derivative warrants	137,775	-
Gain on valuation of derivative liabilities	(530,850)	-
Gain on conversion of convertible debentures	(715,355)	-
Expenses relating to qualifying transaction	-	2,112,734
Gain on settlement of decommissioning liability	-	(23,557)
Operating cash flow before changes in non-cash working capital	(1,474,788)	(1,135,018)
Changes in non-cash working capital (Note 14)	(342,950)	672,878
Net cash used in operating activities:	(1,817,738)	(462,140)
Investing activities:		
Acquisition of exploration and evaluation assets	(7,962,100)	(3,446,013)
Acquisition of property and equipment	(349,761)	(20,303)
Acquisition of investments	(50,384)	-
Cash acquired in reverse acquisition transaction	-	388,498
Net cash used in investing activities:	(8,362,245)	(3,077,818)
Financing activities:		
Proceeds from issuance of convertible debentures	5,378,751	1,942,329
Proceeds from issuance of common stock	13,748,243	4,001,557
Proceeds from exercise of stock options	110,573	30,103
Payment of share issuance costs	(1,881,719)	(391,327)
Deposits (paid) received, net	24,900	-
Amounts (paid to) received from related parties	(122,089)	5,726
Net cash provided by financing activities:	17,258,659	5,588,388
Increase (decrease) in cash and cash equivalents	7,078,676	2,048,430
Cash and cash equivalents, beginning of period	2,283,006	212,075
Effect of exchange rate translation	(795,244)	22,501
Cash and cash equivalents, end of period	$ 8,566,438	$ 2,283,006

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. The Company completed a qualifying transaction effective 22 September 2011, acquiring all of the issued and outstanding common shares of Strata-X, Inc., a company incorporated under the laws of the State of Colorado in the United States whose business activities are directed primarily toward the acquisition, exploration and development of oil and gas properties in the states of Texas, California, North Dakota, Colorado and Illinois within the United States and within western Australia. The Company was created as a Capital Pool Corporation (CPC) as defined in policy 2.4 of the TSX Venture Exchange and first operated under the name Ozcapital Ventures Inc. Initially, the Company had no commercial operations. Instead, its primary business purpose was to identify and evaluate businesses suitable for a qualifying transaction. Subsequent to the qualifying transaction, the activities of the Company have been directed primarily toward the activities of Strata-X, Inc., including acquisition, exploration and development of oil and gas properties within the states in the United States previously noted and within western Australia. The Company also changed its name and trading symbol from Ozcapital Ventures Inc. to Strata-X Ltd. as a result of the qualifying transaction. In October 2012, the Company completed a name change from Strata-X Ltd. to Strata-X Energy Ltd. and announced a continuation into the province of British Columbia. The registered office of the Company is located at 2080-777 Hornby Street, Vancouver, British Columbia, Canada, V6Z 1S4.

As discussed in Note 11, the qualifying transaction was considered a reverse acquisition for accounting purposes, with Strata-X, Inc. identified as the acquirer. As such, the consolidated statements for the year ended 30 June 2012 include the results of Strata-X, Inc. over the period along with the Company's results from the date of the qualifying transaction through 30 June 2012. The share capital and contributed surplus accounts reflect capital activity related to Strata-X, Inc. up to the date of the qualifying transaction. Thereafter, the share capital and contributed surplus accounts were effectively recapitalized, reflecting the Company's share capital structure from the date of the qualifying transaction onward.

Going Concern

The consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company incurred a net loss of $1,347,314 for the year ended 30 June 2013.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on the success of the Company's exploration and development of its oil and gas properties, and the ability of the Company to obtain additional financing or equity to fund the exploration and development of those oil and gas properties. As discussed in Note 11, in March, 2013, the Company completed its initial public offering on the Australian Stock Exchange (ASX) resulting in proceeds of approximately $11,302,055 to be utilized primarily towards funding of exploration and development in the Company's various oil and gas properties as well as ongoing working capital for general and administration expenses. Management anticipates the need for further financing and/or equity funding in the future to continue to fund budgeted development and operational activities.

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

Going Concern (continued)

The consolidated financial statements do not reflect adjustments that would be necessary if the “going concern” assumption were not appropriate. In particular, adjustments would be required to the carrying value of the assets and liabilities, the reported profits and losses, and the balance sheet classifications used.

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 19 September 2013, the date of the Board of Directors approval of the statements.

b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis.

c) Functional Currency

The consolidated financial statements are presented in United States dollars, which is the Company’s functional currency.

d) Use of Estimates

The preparation of financial statements in conformity with IFRS 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. Actual results may differ from these estimates.

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

d) Use of Estimates (continued)

Estimates and judgements 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.

The following paragraphs discuss management's most critical estimates and judgments in determining the value of assets, liabilities and equity.

Recorded amounts for impairment, depletion and depreciation of oil and gas properties and equipment 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 value of exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves which, in turn, is dependent on future oil and natural gas prices, future capital expenditures and environmental and regulatory restrictions.

The value of decommissioning liabilities depends on estimates of current risk-free interest rates, future restoration and reclamation expenditures and the timing of those expenditures. Actual results could differ from those estimates.

The determination of Cash Generating Units ("CGUs") requires judgement 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.

The amounts recorded relating to the fair value of stock options issued are based on estimates of the future volatility of the Company's share price, estimated market price of the Company's shares at grant date, expected lives of the options, expected dividends and other relevant assumptions.

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

The amounts recorded for deferred income taxes are based on 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, tax rates and interpretations by taxation authorities.

3. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, Strata-X, Inc. domiciled in the United States and Strata-X Australia PTY Ltd. domiciled in Queensland, Australia. All intercompany transactions and balances have been eliminated.

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. Exploration and evaluation costs are capitalized as exploration and evaluation assets 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. 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.

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. The impairment of exploration and evaluation assets and any eventual reversal thereof, is recognized in the statement of income.

Exchanges or swaps 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 net earnings.

Property and Equipment

a) Oil and Gas Properties

All costs directly associated with the development and production of oil and natural gas interests are capitalized on a field basis as oil and natural gas interests and are measured at cost less accumulated depletion and depreciation and net impairment losses. These 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 liabilities and transfers from exploration and evaluation assets.

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.

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

Property and Equipment (continued)

a) Oil and Gas Properties (continued)

Exchanges or swaps 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 years 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. 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 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.

Related well equipment will be depleted using the unit-of-production method along with the related reserves when the assets are designed to have a life similar to the reserves of the related wells with little to no residual value. Where different vintages or kinds of equipment have differing useful lives, they are depreciated separately on a straight-line basis over the estimated useful life of the equipment and other related components.

Impairment of Non-Financial Assets

The carrying amount of the Company's non-financial assets, other than exploration and evaluation assets, is reviewed for indicators of impairment at each reporting date. If indicators of impairment exist, the recoverable amount of the asset is estimated. Exploration and evaluation assets are assessed for impairment when they are reclassified to property and equipment and if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of assessing impairment, 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. Exploration and evaluation assets are tested with the producing CGU for which the activity can be attributed or separately where a producing CGU does not exist for the exploration and evaluation activity.

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

Impairment of Non-Financial Assets (continued)

The recoverable amount of a CGU is the greater of its fair value less costs to sell 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. Fair value less costs to sell is determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs and 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 cash-generating unit 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 recoverable amount. An impairment loss recognized in respect of a CGU is allocated to reduce the carrying amount of the assets in a CGU on a pro rata basis. 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 or amortization, if no impairment loss had been recognized.

Decommissioning Provisions

Decommissioning provisions are recognized for decommissioning and restoration obligations associated with the Company's exploration and evaluation assets and property and equipment. The best estimate of the expenditure required to settle the present obligation at the balance sheet 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 asset or property and equipment and is depleted or depreciated over the useful life of the asset. The provision is accreted over time through charges to earnings 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 up to the recorded liability at the time are charged against the provision as the costs are incurred. Any differences between the recorded provision and the actual costs incurred are recorded as a gain or loss.

Foreign Currency Transactions

Transactions in foreign currencies are translated to the functional currency of the Company 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.

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

Stock-Based Compensation

The Company has a Stock Option Plan as described in Note 11 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.

Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation cost is expensed over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

Joint Interest

A portion of the Company's exploration and development activities is conducted jointly with others. Accordingly, these 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 based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation and production-based royalty expenses, are recognized during the same period in which the related revenue is earned and recorded.

Equity Instruments

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

Financial Instruments

a) Classification and Measurement

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through the statement of profit or loss", "loans and receivables", "available-for-sale", "held-to-maturity", or "financial liabilities measured at amortized costs" as defined in IAS 39, "Financial Instruments: Recognition and Measurement".

Financial assets and financial liabilities at "fair value through the statement of profit or loss" are either classified as "held for trading" or "designated at fair value through the statement of profit or loss" and are measured at fair value with changes in fair value recognized in profit or loss. Transaction costs are expensed when incurred. The Company has designated cash and cash equivalents and investments as "designated at fair value through the statement of profit or loss".

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

Financial Instruments (continued)

a) Classification and Measurement (continued)

Financial assets and financial liabilities classified as “loans and receivables”, “held-to-maturity”, or “financial liabilities measured at amortized cost” are measured at amortized cost using the effective interest method of amortization. “Loans and receivables” are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. “Held-to-maturity” financial assets are non-derivative investments that an entity has the positive intention and ability to hold to maturity. “Financial liabilities measured at amortized cost” are those financial liabilities that are not designated as “fair value through the statement of profit or loss” and that are not derivatives. The Company has designated accounts receivable and subscription receivable as “loans and receivables” and accounts payable, accrued liabilities, convertible debentures and amounts due to shareholders as “financial liabilities measured at amortized cost”.

Financial assets classified as “available-for-sale” are measured at fair value, with changes in fair value recognized in other comprehensive income. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

b) Impairment

The Company assesses at each balance sheet date whether there is objective evidence that financial assets, other than those designated as “fair value through the statement of profit or loss” are impaired. When impairment has occurred, the cumulative loss is recognized in the statement of income. For financial assets carried at amortized costs, 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. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to the statement of income in the period. Impairment losses may be reversed in subsequent periods.

Loss per Share

Basic loss per share is computed by dividing the loss by the weighted average shares outstanding during the period. Diluted loss per share is computed similar to the basic loss per share, except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, convertible debentures 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, convertible debentures 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 the statement of comprehensive income except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income 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 using the liability method, 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 carry-forward of 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 carry-forward of unused tax losses and unused tax credits can be utilized.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

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.

Future Changes in Accounting Policies

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

IFRS 9 “Financial Instruments” (“IFRS 9”) was issued by the IASB in October 2010 and 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 rules 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 impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after 1 January 2015.

IFRS 10 “Consolidated Financial Statements” (“IFRS 10”) was issued by the IASB in May 2011. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidated requirements in SIC-12 Consolidated – Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

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

Future Changes in Accounting Policies (continued)

IFRS 11 "Joint Arrangements" ("IFRS 11") was issued by the IASB in May 2011. IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 31 Interest in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers, and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

IFRS 12 "Disclosure of Interests in Other Entities" ("IFRS 12") was issued by the IASB in May 2011. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

IFRS 13 "Fair Value Measurement" ("IFRS 13") was issued by the IASB in May 2011. IFRS 13 establishes new guidance on fair value measurement and disclosure requirements for IFRS and US generally accepted accounting principles ("GAAP"). The guidance, set out in IFRS 13 and an update to Topic 820 in the FASB's Accounting Standards Codification (formerly referred to as SFAS 157), completes a major project of the board's joint work to improve IFRS and US GAAP and to bring about their convergence. The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

IAS 27 "Consolidated and Separate Financial Statements" which is effective for the Company beginning on 1 January 2013, with earlier adoption permitted, has been revised and is limited to the accounting for investments in subsidiaries, joint ventures and associates in separate financial statements.

The Company is currently evaluating the impact of the above standards on its financial performance and financial statement disclosures but expects that such impact will not be material.

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. The Company operates within one industry segment, being the oil and gas industry, in several geographic locations. 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.

(Expressed in U.S. Dollars)

4. **Segment Reporting**

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

	Canada	United States	Australia	Total
Revenues	-	$128,818	-	$128,818
Interest Expense	$156,107	-	$11,044	$167,151
Depreciation	-	$42,953	-	$42,953
Net loss	$332,012	$994,458	$20,844	$1,347,314
Assets	$180,095	$19,568,757	$1,965,542	$21,714,394
Liabilities	$980,437	$1,398,954	$20,140	$2,399,531

5. **Other Assets**

Other assets consist of certificates of deposit and other financial instruments held by the Company as required by state agencies in California, Colorado and Texas as restricted amounts to be utilized for potential future remediation of certain properties in these states.

6. **Exploration and Evaluation Assets**

	30 June 2013	30 June 2012
Balance, beginning of period	**$ 3,481,188**	$ 979,400
Addition	**8,989,036**	3,322,995
Impairment incurred	**(40,564)**	-
Dry hole costs expensed	**(126,075)**	(821,207)
Balance, end of period	**$ 12,303,585**	$ **3,481,188**

During the year ended June 30, 2012, the Company was informed by the operator of interests located in California of the abandonment of an exploratory well based on the lack of economic quantities of hydrocarbons discovered. The costs capitalized as exploration and evaluation assets for the well totaled $409,654 and were expensed as dry hole costs during the year. The Company determined in May 2012 that an exploratory well in Colorado on a project where the Company is the operator should to be abandoned based on stability issues in the wellbore. The costs capitalized as exploration and evaluation assets for the well totaled $411,553 and were expensed as dry hole costs during the year.

During the year ended 30 June 2013, the Company recorded an impairment of $40,564 related to its West Florence property. The Company also recorded dry hole costs of $126,075 related to its Vallecito property.

7. **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 16.

8. Convertible Debentures

On 29 June 2012 the Company completed a private placement that included CDN $3,030,000 (US $2,963,846) in unsecured debentures bearing interest at 5% per annum, compounded semi-annually. The debentures were due to mature on 29 June 2013 and were convertible into units on the basis of one unit for each CDN $0.25 of the principal amount of debenture and accrued interest. Each unit issued upon conversion was to comprise one common share and one-half of a common share purchase warrant, with one warrant exercisable at CDN $0.50 per share to acquire one common share of the Company until 29 June 2014, at which time the warrants expire.

On 13 July 2012, the Company completed a second private placement representing an extension of the initial private placement of 29 June 2012, that included CDN $200,000 (US $197,020) in unsecured debentures bearing interest at 5% per annum, compounded semi-annually. The debentures were due to mature on 13 July 2013 and were convertible into units on the basis of one unit for each CDN $0.25 of the principal amount of debenture and accrued interest. Each unit issued upon conversion was to comprise one common share and one-half of a common share purchase warrant, with one warrant exercisable at CDN $0.50 per share to acquire one common share of the Company until 13 July 2014, at which time the warrants expire.

On 30 October 2012, the Company completed a non-brokered private placement of CDN $4,181,000 (US $4,182,672) convertible debentures bearing interest at 5% per annum compounded semi-annually with a maturity date of 30 October 2014. The debentures were convertible into units on the basis of one unit for each CDN $0.25 of the principal amount of debenture. Each unit issued upon conversion of principal amount was to comprise one common share and one-half of a common share purchase warrant, with one warrant exercisable at CDN $0.50 per share to acquire one common share of the Company until 30 October 2016, at which time the warrants expire. Accrued interest was to be payable in arrears in units at the semi-annual payment dates on the basis of the market price of the Company's common shares at the time interest was due. Each unit comprises one share and one-half of a common share purchase warrant, with one warrant exercisable at CDN $0.50 per share to acquire one common share until 30 October 2016, at which time the warrants expire.

On 21 December 2012, the convertible debentures dated 29 June 2012 and 13 July 2012 were converted into units per the provisions of each when the Company lodged a prospectus with the Australian Securities and Investment Commission (ASIC) for the eventual co-listing of its shares on the ASX. The balances related to the convertible debentures and the related derivative financial liabilities of CDN$3,087,487 (US$3,020,990) and CDN$438,509 (US$428,620), respectively, were reclassified as share capital and derivative warrants and a gain on conversion of US$288,644 was recorded in profit and loss.

On 12 February 2013, the accrued interest related to the convertible debentures dated 29 June 2012 and 13 July 2012 was converted into units per the provisions of each debenture upon closing of the initial public offering related to the listing of shares of the Company on the ASX. The total accrued interest balance of CDN$77,431 (US$77,175) was reclassified as share capital and derivative warrants.

On 13 February 2013, the convertible debentures dated 30 October 2012 and the related accrued interest, were converted into units per the provisions of the debentures upon closing of the initial public offering related to the listing of shares of the Company on the ASX. Certain balances of accrued interest payable to related parties converted directly into shares of common stock. The balances of CDN$3,573,101 (US$3,572,788) and CDN$1,045,327 (US$1,036,495) related to the convertible debentures and the related derivative financial liability were reclassified as share capital and derivative warrants and a gain on conversion of US$426,711 was recorded in profit and loss.

(Expressed in U.S. Dollars)

8. **Convertible Debentures (continued)**

The activity related to the convertible debentures and derivative financial liabilities representing the conversion feature of convertible debentures is as follows:

	Convertible Debentures	Derivative Financial Liabilities	Total
Balance, 30 June 2011	$ -	$ -	$ -
Issuance of debentures	2,705,442	258,404	2,963,846
Balance, 30 June 2012	2,705,442	258,404	2,963,846
Issuance of debentures	3,690,953	688,537	4,379,490
Accretion	197,281	-	197,281
Derivative loss on revaluation	-	518,173	518,173
Conversion of debentures	(6,593,676)	(1,465,114)	(8,058,790)
Balance, 30 June 2013	$ -	$ -	$ -

As of 30 June 2013, the Company has 1,291,598 of convertible note certificates in escrow.

(Expressed in U.S. Dollars)

9. Property and Equipment

	Cost						
	Balance at 1 July 2011	**Additions**	**Disposals and Adjustments**	**Balance at 30 June 2012**	**Additions**	**Disposals and Adjustments**	**Balance at 30 June 2013**
Oil and gas properties	$ 4,739,185	$ 70,083	$ (34,781)	$ 4,774,487	$ 402,243	$ (4,621,813)	$ 554,917
Computer equipment and software	1,187	6,277	-	7,464	7,518	-	14,982
	$ 4,740,372	$ 76,360	$ (34,781)	$ 4,781,951	$ 409,761	$ (4,621,813)	$ 569,899

	Accumulated Depletion, Depreciation, Amortization and Impairment						
	Balance at 1 July 2011	**Additions**	**Impairment**	**Balance at 30 June 2012**	**Additions**	**Disposals**	**Balance at 30 June 2013**
Oil and gas properties	$ 2,788,733	$ 18,791	$ 1,811,750	$ 4,619,274	$ 41,084	$ (4,619,761)	$ 40,597
Computer equipment and software	592	727	-	1,319	1,869	-	3,188
	$ 2,789,325	$ 19,518	$ 1,811,750	$ 4,620,593	$ 42,953	$ (4,619,761)	$ 43,785

	Net Book Value	
	Balance at 30 June 2012	**Balance at 30 June 2013**
Oil and gas properties	$ 155,213	$ 514,320
Computer equipment and software	6,145	11,794
	$ 161,358	$ 526,114

During the year ended 30 June 2013, the Company relinquished its interest in the Flour Bluff property and recorded a disposal of $4,621,813 of cost and $4,619,761 of accumulated depletion, depreciation, amortization and impairment. The remaining $194,678 of net book value for the property relates to the residual value of the asset that will be recovered.

During the year ended 30 June 2012, an impairment expense of $1,811,750 was recorded against producing interests in Texas based on current commodity prices reducing the carrying value of the capitalized costs to the amount representing the underlying value of the real estate interests related to the property.

(Expressed in U.S. Dollars)

10. Decommissioning Provisions

	30 June 2013	30 June 2012
Balance, beginning of period	**$ 571,719**	$ 672,916
Change in estimate	**12,370**	(124,271)
Retirement of obligation	**(25,000)**	-
Net present value of new obligation	**60,000**	-
Accretion expense	**19,972**	23,074
Balance, end of period	**$ 639,061**	$ 571,719

The Company has calculated the fair value of decommissioning provisions using a discount rate of 5.5%. The estimated undiscounted future cash flows to settle decommissioning provisions are $839,160 (30 June 2012 - $788,400) and are expected to be realized over a period of approximately 14 years.

(Expressed in U.S. Dollars)

11. **Share Capital**

Authorized:

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

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

Issued and outstanding:

	Number	Amount
Balance at 30 June 2011	14,985,000	$ 2,797,000
Exchange of Strata-X, Inc. common shares for Strata-X Energy Ltd. common shares in reverse acquisition transaction	(14,985,000) 19,980,000	-
Existing common shares of Strata-X Energy Ltd. and value of common shares attributable to consideration in reverse acquisition transaction	10,000,000	2,114,150
Shares issued for cash, 22 September 2011	12,328,156	3,037,555
Share issuance costs	-	(342,599)
Shares issued for cash, 29 June 2012	2,075,000	449,342
Share issuance costs	-	(192,334)
Exercise of stock options	307,500	30,103
Balance at 30 June 2012	44,690,656	7,893,217
Shares issued for cash, 13 July 2012	300,000	67,620
Shares issued in consideration for an extension agreement for certain oil and gas interests	999,789	300,761
Shares issued in consideration for acquisiton of working interest in oil and gas property	3,000,000	762,517
Shares issued for cash, 31 October 2012	1,255,600	244,032
Exercise of stock options	1,087,500	110,573
Shares issued on conversion of convertible debentures, 21 December 2012	12,920,000	2,795,512
Shares issued on conversion of accrued interest on convertible debentures, 12 February 2013 and 13 February 2013	471,615	111,408
Shares issued on conversion of convertible debentures, 13 February 2013	16,724,000	3,267,350
Share issuance costs	-	(180,694)
Shares issued in Australian public offering	42,303,293	13,257,620
Share issuance costs	-	(1,955,565)
Balance at 30 June 2013	123,752,453	$ 26,674,351

11. **Share Capital (continued)**

As at 30 June 2013, 1,800,000 common shares are in escrow pursuant to a 5D Value Escrow Agreement dated 9 September 2011 and 6,495,000 common shares are in escrow pursuant to an ASX Escrow agreement dated 19 February 2013.

Reverse Acquisition Transaction and Recapitalization of Share Capital

As discussed in Note 1, on 22 September 2011, the Company completed a qualifying transaction pursuant to the policies of the TSX Venture Exchange. Pursuant to the transaction, the Company entered into a share exchange agreement with Strata-X, Inc., acquiring all of the issued and outstanding common shares of Strata-X, Inc. in exchange for the issuance of 19,980,000 units of the Company, with each unit representing one common share and one-half of a common share purchase warrant entitling the holder to acquire one share of common stock of the Company at CDN $0.50 per share for a period of 18 months from the date of the transaction.

As a result of the qualifying transaction, Strata-X, Inc. became a wholly-owned subsidiary of the Company from a legal standpoint. As the Company was deemed a non-operating public enterprise, the transaction has been accounted for as a capital transaction in accordance with IFRS. Therefore, the transaction is equivalent to the issuance of shares by the Company for the net assets of Strata-X, Inc., accompanied by a recapitalization of Strata-X, Inc. From an accounting standpoint, under guidance provided by IFRS 3, "Business Combinations", Strata-X, Inc. was identified as the acquirer in the transaction, and the transaction was considered a reverse acquisition for accounting purposes under IFRS, but was not considered a business combination of the two entities based on further guidance from IFRS 3. As such, the acquisition was accounted for under guidance provided by IFRS 2, "Share-based Payment", resulting in the acquisition of the net assets of the Company by Strata-X, Inc. at fair value, measured as of the date of the transaction, and a recapitalization of the share capital of Strata-X, Inc. to reflect the share capital structure of Strata-X Energy Ltd. as of 22 September 2011. Since the value attributed to the Company was in excess of the net assets received by Strata-X, Inc. for accounting purposes, IFRS 2 would indicate the difference be recognized as a transaction cost in the statement of comprehensive loss.

As the qualifying transaction was a reverse acquisition for accounting purposes, the acquisition date fair value of the consideration transferred by Strata-X, Inc. for its interest in Strata-X Energy Ltd. is based on the number of equity interests Strata-X, Inc. would have had to issue to give the owners of Strata-X Energy Ltd. the same percentage equity interest in the combined entity that results from the reverse acquisition. The fair value of the number of equity interests calculated in that way can be used as the fair value of consideration transferred. As Strata-X, Inc. was a private company, its fair value was not readily determinable. Therefore, the fair value was based on the fair value of the common shares issued by Strata-X Energy Ltd. in the private placement closed in conjunction with the reverse acquisition, and the number of shares held by the original Strata-X Energy Ltd. shareholders. The fair value of the purchase consideration was estimated to be $2,500,000 based on 10,000,000 common shares at a fair value of $0.25 per share. The total purchase consideration has been allocated to the common shares ($2,114,150) and warrants ($385,850).

11. **Share Capital (continued)**

Reverse Acquisition Transaction and Recapitalization of Share Capital (continued)

Based on the statement of financial position of Strata-X Energy Ltd. at the time of the reverse acquisition, the net assets that were acquired were $387,266 and resulting transaction costs charged to profit or loss are as follows:

Consideration	$ 2,500,000
Net assets acquired	387,266
Transaction costs	$ 2,112,734

Common Stock Offerings

In connection with the qualifying transaction noted above, the Company completed a private placement of common stock effective 22 September 2011. The Company issued 12,328,156 units at a price of CDN $0.30 per unit for total gross proceeds of $3,591,933 after conversion to U.S dollars as of the effective date of the placement. Each unit comprised one common share and one-half of a common share purchase warrant, with one warrant exercisable at CDN $0.50 per share to acquire one common share of the Company. All of the outstanding common share purchase warrants expired effective 22 March 2013. The gross proceeds of CDN$3,127,630 (US$3,037,555) and CDN$570,817 (US$554,378) were allocated, respectively, to the common shares and warrants. Share issuance costs of $288,895 and $51,056 were allocated to the common shares and warrants, respectively. Warrants were valued using the Black Scholes model using the following assumptions: expected dividend rate of 0%; expected volatility of 121%; risk free rate of 0.86%; and expected life of 1.5 years. The warrants were classified as a derivative financial liability since the exercise price was fixed in Canadian dollars and the functional currency was U.S. dollars. In addition, finder' warrants with a fair value of $53,704 were recorded as share issuance costs.

On 29 June 2012, the Company completed a private placement of common stock and convertible debentures as discussed in Note 8. The Company issued 2,075,000 units at a price of CDN $0.25 per unit. Each unit comprises one common share and one-half of a common share purchase warrant, with one warrant exercisable at CDN $0.60 per share to acquire one common share of the Company until 29 June 2014, at which time the warrants expire. The gross proceeds of CDN$459,356 (US$449,342) and CDN$59,394 (US$58,099) were allocated, respectively, to the common shares and warrants. Share issuance costs of $45,584 and $5,792 were allocated to the common shares and warrants, respectively. Warrants were valued using the Black Scholes model using the following assumptions: expected dividend rate of 0%; expected volatility of 89.46%; risk free rate of 1.04%; and expected life of 2 years. The warrants have been classified as a financial liability since the exercise price of the warrants is fixed in Canadian dollars and the functional currency is US dollars. The Company was granted an extension to effect a second closing of the private placement as further discussed below. In addition, finders' warrants with a fair value of $146,750 were recorded as share issuance costs.

11. **Share Capital (continued)**

Common Stock Offerings (continued)

As discussed in Note 8, the Company completed a second private placement of common stock and convertible debentures on 13 July 2012 pursuant to an extension of the initial private placement of 29 June 2012. A total of 300,000 units were issued in the second private placement at a price of CDN$0.25 per unit. Each unit comprises one common share and one-half of a common share purchase warrant, with one whole warrant exercisable at CDN$0.60 per share to acquire one common share of the Company until 13 July 2014, at which time the warrants expire. The gross proceeds of CDN$68,641 (US$67,620) and CDN$6,359 (US$6,264) were allocated to the common shares and warrants, respectively. Warrants were valued using the Black Scholes model using the following assumptions: expected dividend rate of 0%; expected volatility of 80.13%; risk free rate of 0.26%; and expected life of 2 years. The warrants have been classified as a derivative financial liability since the exercise price of the warrants is fixed in Canadian dollars and the functional currency is US dollars.

On 11 September 2012, 483,349 common shares of stock were issued at a fair value of CDN $0.206 per share for total consideration of CDN $99,570 (US $99,443) per the terms of an extension agreement executed by the Company to acquire options to develop certain mineral interests located in North Dakota. An additional 516,440 common shares were issued on 21 March 2013 at a fair value of CDN$0.3966 per share for a total consideration of CDN$204,820 (US$201,318).

On 26 September 2012, 3,000,000 common shares of stock were issued at a fair value of CDN $0.25 per share for total consideration of CDN $750,000 (US $762,517) per the terms of a purchase and sale agreement executed by the Company to acquire an interest and option to acquire further interests for exploration and development in acreage located in Texas. The shares issued are subject to an escrow period ending 27 September 2013.

On 31 October 2012, the Company completed a second private placement representing an extension of the initial private placement of convertible debentures on 30 October 2012, as discussed in Note 8. The second placement included the issuance of 1,255,600 units at a price of CDN $0.25 per unit representing total proceeds of CDN $313,900 (US $313,800). Each unit comprises one common share and one-half of a common share purchase warrant, with one warrant exercisable at CDN $0.50 per share to acquire one common share of stock until 31 October 2016, at which time the warrants expire. The gross proceeds of CDN$244,111 (US$244,032) and CDN$69,789 (US$69,768) were allocated to the common shares and warrants, respectively. Warrants were valued using the Black Scholes model using the following assumptions: expected dividend rate of 0%; expected volatility of 86.77%; risk free rate of 3.13%; and expected life of 4 years. The warrants have been classified as a derivative financial liability since the exercise price of the warrants is fixed in Canadian dollars and the functional currency is US dollars.

On 20 February 2013, the Company completed its initial public offering of 42,303,293 CHESS depository interests (CDI's) at a price of A$0.30 per CDI with each CDI equivalent to and exchangeable for one common share of stock of the Company. The CDI's trade on the ASX. The offering resulted in proceeds of $13,257,620 (AUD$12,690,987). Share issuance costs of $1,955,565 have been netted against the proceeds from the issuance. The existing shares of the Company will continue to be traded on the TSX Venture Exchange.

11. **Share Capital (continued)**

Conversion of Convertible Debentures

As discussed in Note 8, the convertible debentures issued on 29 June 2012 and 13 July 2012 were converted into units on 21 December 2012. The total balance of debentures of CDN $3,230,000 (US$3,248,411) converted based on the terms outlined in Note 8, resulting in 12,920,000 units issued. The accrued interest related to the debentures was converted into units on 12 February 2013 on the closing of the offering period for the Australian offering and the allotment of shares. The total balance of accrued interest of CDN$77,431 (US$77,175) converted on the basis of one unit for each CDN$0.25 of accrued interest, resulting in 309,727 units issued. The values of CDN$2,779,707 (US$2,795,512) and CDN$450,293 (US$452,854) have been allocated to share capital and warrants, respectively, for the converted debentures, and the values of CDN$66,326 (US$66,108) and CDN$11,105 (US$11,067) were allocated to share capital and warrants, respectively, for the converted accrued interest. Warrants attributed to the converted debentures were valued using the Black Scholes model using the following assumptions: expected dividend rate of 0%; expected volatility of 96.2%; risk free rate of 0.23%; and expected life of 1.50 years. Warrants attributed to the converted accrued interest were valued using the Black Scholes model using the following assumptions: expected dividend rate of 0%; expected volatility of 93.2%; risk free rate of 0.54%; and expected life of 1.38 years. The warrants have been classified as a derivative financial liability since the exercise price of the warrants is fixed in Canadian dollars and the functional currency is US dollars.

As discussed in Note 8, the convertible debentures issued on 30 October 2012 and the related accrued interest were converted into units and shares of common stock on 13 February 2013. The total balance of debentures of CDN$4,181,000 (US$4,182,572) converted based on the terms outlined in Note 8, resulting in 16,724,000 units issued. The accrued interest payable on debentures held by related parties of CDN$10,890 (US$10,870) converted into 29,040 shares of common stock. Other accrued interest related to the debentures was converted into units on the basis of one unit for each CDN$0.375 of accrued interest, resulting in 132,848 units issued. The gross amount of CDN$3,273,278 (US$3,267,350) and CDN$907,722 (US$906,078) have been allocated to share capital and warrants, respectively, for the converted debentures, and the values of CDN$45,382 (US$45,300) and CDN$15,326 (US$15,298) have been allocated to share capital and warrants, respectively, for the accrued interest converted into units. Share issuance costs of $180,694 and $50,109 were allocated to common shares and warrants, respectively. Warrants attributed to the convertible debentures and the accrued interest converted into units were valued using the Black Scholes model using the following assumptions: expected dividend rate of 0%; expected volatility of 85.11%; risk free rate of 0.44%; and expected life of 3.71 years.

11. **Share Capital (continued)**

Stock Purchase Warrants

As noted above, 9,990,000 common share purchase warrants were issued in connection with the qualifying transaction. An additional 6,164,078 common share purchase warrants were issued as part of the offering that closed at the same time. These two issuances of warrants expired on 22 March 2013. A further 1,037,500 common share purchase warrants were issued in the private placement offering of 29 June 2012, with another 150,000 common share purchase warrants being issued as part of the private placement offering of 13 July 2012. A further 627,800 common share purchase warrants were issued in the private placement offering of 31 October 2012 and 6,460,000 common share purchase warrants were issued on conversion of the convertible debentures on 21 December 2012, as discussed in Note 8. A further 154,868 common share purchase warrants were issued on conversion of the accrued interest related to convertible debentures on 12 February 2013. A further 8,428,431 common share purchase warrants were issued on conversion of the convertible debentures and related accrued interest on 13 February 2013. The warrants have been classified as a derivative financial liability since the exercise price of the warrants is fixed in Canadian dollars, but the functional currency of the Company is US dollars.

The activity related to derivative warrants is as follows:

	30 June 2013	30 June 2012
Balance, beginning of period	**$ 555,629**	$ -
Additions	**1,411,220**	555,629
Fair value adjustments	**(1,060,200)**	-
Balance, end of period	**$ 906,649**	$ **555,629**

The fair value of the derivative warrants was determined as at 30 June 2013 using the following weighted average assumptions:

	30 June 2013	30 June 2012
Risk-free rate	0.42%	0.15%
Expected life (years)	2.3	1.0
Expected volatility	83.6%	85.9%
Dividend yield	0.0%	0.0%

(Expressed in U.S. Dollars)

11. **Share Capital (continued)**

Stock Purchase Warrants (continued)

<u>Finder warrants</u>

A total of 658,653 finder common share purchase warrants were issued to arm's length finders for the private placement that closed on 22 September 2011 with each finder warrant exercisable at CDN $0.50 per share to acquire one common share of the Company until 22 March 2013, at which time the warrants expired. A total of 1,600,000 finder common share purchase warrants were issued to arm's length finders for the private placement that closed on 29 June 2012, with each finder warrant exercisable at CDN $0.40 per share to acquire one common share of the Company until 29 June 2014, at which time the warrants expire. An additional 118,000 finder common share purchase warrants were issued for the private placement, with each finder warrant exercisable at CDN $0.60 per share to acquire one common share of the Company until 29 June 2014, at which time the warrants expire.

On 25 September 2012 a total of 200,000 finder common share purchase warrants were issued to consultants to the Company for services related to permitting and exploration activities on property in western Australia with each finder warrant exercisable at CDN $0.34 per share to acquire one common share of the Company until 25 September 2015, at which time the warrants expire. The fair value of the 200,000 finder warrants of CDN $39,200 (US $40,124) is expensed in production and exploration costs during the year ended 30 June 2013. A total of 3,500 finder common share purchase warrants were issued to arm's length finders for the private placement that closed on 31 October 2012, with each finder warrant exercisable at CDN $0.50 per share to acquire one common share of the Company until 31 October 2016, at which time the warrants expire. A total of 1,265,383 finders common share purchase warrants were issued on 20 February 2013 to the joint lead managers for the Australian initial public offering, with each finders warrant exercisable at A$0.36 per share to acquire one Australian CDI of the Company until 20 February 2016, at which time the warrants expire. The fair value of the finder warrants of A$265,006 (US$264,529) is reflected as share issuance costs during the year ended 30 June 2013.

Finders' warrants are considered share-based payment transactions. As such they are accounted for under IFRS 2, Share-Based Payments, which considers them to be equity. Accordingly, they are initially measured at fair value and are not re-measured at each reporting date. The finders' warrants issued during the year ended 30 June 2013 are measured using the Black Scholes model with the following weighted average assumptions:

	30 June 2013	30 June 2012
Risk-free rate	0.59%	0.99%
Expected life (years)	3.0	1.8
Expected volatility	85.3%	97.9%
Dividend yield	0.0%	0.0%

(Expressed in U.S. Dollars)

11. Share Capital (continued)

Stock Purchase Warrants (continued)

Activity related to common share purchase warrants for the Company for the year ended 30 June 2013 and 2012 is as follows:

	30 June 2013			30 June 2012		
	Number	Weighted Average Exercise Price	Currency	Number	Weighted Average Exercise Price	Currency
Balance, beginning of period	19,568,231	$ 0.50	CDN	-	$ -	-
Warrants issued attributable to overall consideration in reverse acquisition transaction	-	-	-	9,990,000	0.50	CDN
Warrants issued in private placement 22 September 2011	-	-	-	6,164,078	0.50	CDN
Finder warrants - 22 September 2011	-	-	-	658,653	0.50	CDN
Warrants issued in private placement 29 June 2012	-	-	-	1,037,500	0.60	CDN
Finder warrants - 29 June 2012	-	-	-	118,000	0.60	CDN
Finder warrants - 29 June 2012	-	-	-	1,600,000	0.40	CDN
Warrants issued in private placement 13 July 2012	150,000	0.60	CDN	-	-	-
Finder warrants - 25 September 2012	200,000	0.34	CDN	-	-	-
Warrants issued in private placement 31 October 2012	627,800	0.50	CDN	-	-	-
Finder warrants - 31 October 2012	3,500	0.50	CDN	-	-	-
Warrants issued on conversion of convertible debentures, 21 December 2012	6,460,000	0.50	CDN	-	-	-
Warrants issued on conversion of accrued interest related to convertible debentures, 12 February 2013	154,868	0.50	CDN	-	-	-
Warrants issued on conversion of convertible debentures, 13 February 2013	8,362,000	0.50	CDN	-	-	-
Warrants issued on conversion of accrued interest related to convertible debentures, 13 February 2013	66,431	0.38	CDN	-	-	-
Finder warrants - 20 February 2013	1,265,383	0.36	AUS	-	-	-
Expiration of warrants	(16,812,731)	0.50	CDN	-	-	-
Balance, end of period	20,045,482	$ 0.49		19,568,231	$ 0.50	

(Expressed in U.S. Dollars)

11. **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 as follows:

	Year ended 30 June			
	2013		2012	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	3,092,500	$ 0.22	1,600,000	$ 0.10
Granted	3,120,000	0.37	1,800,000	0.30
Exercised	(1,087,500)	0.10	(307,500)	0.10
Expired	(45,000)	0.10	-	-
Outstanding, end of period	5,080,000	$ 0.34	3,092,500	$ 0.22
Exercisable, end of period	4,465,000	$ 0.34	3,092,500	$ 0.22

(Expressed in U.S. Dollars)

11. **Share Capital (continued)**

Stock Option Plan (continued)

The following table summarizes information on stock options outstanding and exercisable at 30 June 2013:

Exercise Price		Currency	Number Outstanding	Number Exercisable	Weighted Average Contractual Life (years)
$	0.10	CDN	160,000	160,000	7.42
$	0.30	CDN	3,020,000	2,480,000	8.72
$	0.34	CDN	1,000,000	1,000,000	9.24
$	0.50	AUD	800,000	800,000	1.50
$	0.50	CDN	100,000	25,000	4.80

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

	Exercise Price				
	$0.10 CDN	$0.30 CDN	$0.34 CDN	$0.50 AUD	$0.50 CDN
Weighted average grant date fair value	$0.07	$0.25	$0.34	$0.32	$0.28
Expected dividend rate	0%	0%	0%	0%	0%
Expected volatility	85%	105%	83%	94%	82%
Risk-free interest rate	1.83%	1.88%	1.81%	0.23%	0.67%
Expected life of options (years)	2.63	10	10	1.75	5

The fair value of the 3,120,000 stock options granted during the year ended 30 June 2013 is $554,111. The fair value of the 1,800,000 stock options granted during the year ended 30 June 2012 is $376,506. The fair value of stock options is expensed in general and administrative costs and included as a component of share based compensation reserve in shareholders' equity.

(Expressed in U.S. Dollars)

12. **Contributed Surplus**

Contributed surplus consists of amounts contributed by the former parent of Strata-X, Inc. over a period of years to fund exploration and development activities. The contribution was considered to be a net investment in Strata-X, Inc. and classified as equity.

13. **Net Loss per Common Share**

The basic net loss per common share is based on the weighted average number of common shares outstanding for the year ended 30 June 2013 and 2012 of 77,702,454 and 37,356,667, respectively. The 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.

14. **Details of Cash from Operating Activities**

Changes in non-cash working capital items:

	2013	2012
Accounts receivable	$ 232,711	$ (123,615)
Prepaids and other	19,612	40,483
Accounts payable and accrued liabilities	(595,273)	756,010
	$ (342,950)	$ 672,878

15. **Income Taxes**

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities are as follows:

	Year ended 30 June	
	2013	2012
Deferred tax assets:		
Property and equipment	$ 2,308,248	$ 2,095,417
Decommissioning liabilities	255,624	218,290
Non-capital losses	1,253,202	553,909
Share issuance costs	513,631	142,210
Valuation allowance	(4,330,705)	(3,009,826)
Deferred income taxes	$ -	$ -

(Expressed in U.S. Dollars)

15. **Income Taxes (continued)**

As at 30 June 2013, the Company has non-capital loss carryforwards of $4,253,528, which will expire as follows:

	30 June
2028	$ 23,664
2029	29,306
2030	43,380
2031	282,882
2032	1,712,172
2033	2,162,124
	$ 4,253,528

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

	Year ended 30 June 2013	2012
Loss before income taxes	$ (1,347,314)	$ (6,276,249)
Statutory tax rate	25.00%	25.75%
Expected income tax recovery	(336,829)	(1,616,134)
Increase in valuation allowance	1,320,879	753,340
Qualifying transaction costs	-	544,029
Other	(984,050)	318,765
Net income tax recovery	$ -	$ -

16. **Related Party Transactions**

The Company utilizes the services of an outside firm in which the President and Chief Executive Officer (CEO) of the Company is a majority shareholder. The contract with the outside firm calls for monthly payments of $20,000 plus reimbursable expenses and administrative costs primarily related to the services the President and CEO provides to the Company. During the year ended 30 June 2013, the Company incurred $283,407 (2012 - $162,836) in costs to the outside firm for consulting services. These costs are allocated to general and administrative expenses and exploration and evaluation assets. At 30 June 2013, the Company owes the firm $75,580 (2012 - $154,289), which is included in amounts due to related parties.

The Company utilizes the services of an outside firm in which the former Chief Financial Officer (CFO) of the Company is a majority shareholder. The former CFO resigned his position with the Company effective 21 May 2013 and remains a member of the board of directors of the Company. The contract with this firm through 30 June was for ongoing accounting, reporting and tax compliance services, and CFO outsourcing services. During the year ended 30 June 2013, the Company incurred $118,794 (2012 - $140,089) in costs to the outside firm for accounting services. These costs are allocated to general and administrative expenses and exploration and evaluation assets. Further, the Company utilized the services of an outside consultant for land management and controller functions through 21 May 2013, at which time the consultant was appointed to the position of CFO of the Company. Up to the date of his appointment the Company incurred $112,480 in costs to this consultant and as of 30 June 2013 the Company owes him $970.

The Company utilizes the services of outside consultants to perform the services of Corporate Secretary of the Company in both Canada and Australia. The current contract with the Australian consultant calls for monthly payments of AUS $2,500. During the year ended 30 June 2013, the Company incurred CDN $51,173 and AUS $28,540 in costs to the outside consultants for Canada and Australia, respectively, for corporate services, all of which is included in general and administrative expenses.

Total compensation paid to key management personnel, including the related parties identified above plus incentive stock compensation related to stock options issued, was approximately $803,250 (2012 - $378,900) for the year ended 30 June 2013.

17. **Financial Instruments**

The Company's financial instruments consist of cash and cash equivalents, subscription receivable, investments, accounts receivable, accounts payable and accrued liabilities, convertible debentures, derivative financial liabilities and amounts due to related parties.

Financial risk management

The Company's activities are exposed to a variety of financial risks: interest rate risk, market risk, credit risk, liquidity 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.

Interest rate risk

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

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

17. **Financial Instruments (continued)**

Market risk

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

Credit risk

The Company's exposure to credit risk relates to cash, accounts receivables and subscription receivable 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 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 the financial assets. 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.

Liquidity risk

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable, purchasing commitments and obligations or raising of funds to meet commitments and sustain operations. The Company controls liquidity risk by the management of working capital and cash flows. As at 30 June 2013, the Company has a positive working capital of $7,844,808.

Foreign exchange risk

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

18. **Capital Management**

The Company's objective when managing capital is to maintain adequate cash resources to support planned activities which include the acquisition and development of oil and gas properties. The Company includes shareholders' equity in the definition of capital.

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.

The Company is not subject to externally imposed capital requirements.