**STRATA-X ENERGY LTD.**
(Unaudited)
Interim Condensed Consolidated Financial Statements
For the Six Months Ended 31 December 2013
(Expressed in U.S. Dollars)

**STRATA-X ENERGY LTD.**
(Unaudited)
Interim Condensed Consolidated Statement of Financial Position
31 December 2013
(Expressed in U.S. Dollars)

| | **31 December 2013** | 30 June 2013 |
|---|---|---|
| ASSETS: | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 8,223,963 | $ 8,566,438 |
| Accounts receivable | 54,522 | 78,642 |
| Prepaids and other | 158,647 | 13,779 |
| **Total current assets** | 8,437,132 | 8,658,859 |
| **Other assets (Note 6)** | 325,893 | 225,836 |
| **Exploration and evaluation assets (Note 7)** | 17,111,704 | 12,303,585 |
| **Property and equipment (Note 10)** | 495,814 | 526,114 |
| **Total assets** | $ 26,370,543 | $ 21,714,394 |
| LIABILITIES: | | |
| **Current liabilities:** | | |
| Accounts payable and accrued liabilities | $ 842,039 | $ 689,323 |
| Deposits (Note 5) | 23,726 | 24,900 |
| Amounts due to related parties (Notes 8 and 16) | - | 76,550 |
| Derivative warrants (Note 12) | 101,524 | 23,278 |
| **Total current liabilities** | 967,289 | 814,051 |
| **Derivative warrants (Note 12)** | 768,142 | 883,371 |
| **Accrued liabilities** | 63,048 | 63,048 |
| **Decommissioning provisions (Note 11)** | 649,020 | 639,061 |
| **Total liabilities** | 2,447,499 | 2,399,531 |
| SHAREHOLDERS' EQUITY: | | |
| **Share capital (Note 12)** | 31,990,607 | 26,674,351 |
| **Share based compensation reserve** | 1,077,723 | 930,617 |
| **Warrant reserve** | 991,592 | 890,954 |
| **Contributed surplus (Note 13)** | 22,066,879 | 22,066,879 |
| **Accumulated other comprehensive income** | (968,750) | (883,488) |
| **Deficit** | (31,235,007) | (30,364,450) |
| **Total shareholders' equity** | 23,923,044 | 19,314,863 |
| **Total liabilities and shareholders' equity** | $ 26,370,543 | $ 21,714,394 |

Approved on behalf of the Board

Director Director

*See accompanying notes*

**STRATA-X ENERGY LTD.**
(Unaudited)
Interim Condensed Consolidated Statement of Comprehensive Loss
(Expressed in U.S. Dollars)

| | Three months ended 31 December | | Six months ended 31 December | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| **Oil and gas revenue** | $ 31,459 | $ 51,638 | $ 46,203 | $ 63,886 |
| **Expenses** | | | | |
| Production and exploration | 51,515 | 95,268 | 115,957 | 262,042 |
| General and administrative | 488,623 | 707,129 | 803,286 | 1,181,315 |
| Depletion, depreciation and amortization | 19,771 | 553 | 33,096 | 1,412 |
| Impairment of oil and gas properties | - | - | - | 8,623 |
| Dry hole costs | - | 80,000 | - | 80,000 |
| | 559,909 | 882,950 | 952,339 | 1,533,392 |
| Loss before other income | (528,450) | (831,312) | (906,136) | (1,469,506) |
| **Other income** | - | - | - | 15,000 |
| **Net operating loss** | (528,450) | (831,312) | (906,136) | (1,454,506) |
| **Gain (loss) on valuation of derivative liabilities** | 492,896 | (51,147) | 34,326 | 119,910 |
| **Gain on conversion of convertible debentures** | - | 297,576 | - | 297,576 |
| **Net finance expense** | 592 | (314,205) | 1,253 | (318,111) |
| **Net loss** | (34,961) | (899,088) | (870,557) | (1,355,131) |
| **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 | (73,323) | (3,642) | (85,262) | 24,461 |
| **Other comprehensive income (loss) for the period** | (73,323) | (3,642) | (85,262) | 24,461 |
| **Comprehensive loss** | $ (108,284) | $ (902,730) | $ (955,819) | $ (1,330,670) |
| Net loss per common share, basic and diluted (Note 14) | $ (0.00) | $ (0.02) | $ (0.01) | $ (0.03) |

*See accompanying notes*

**STRATA-X ENERGY LTD.**
(Unaudited)
Interim Condensed Consolidated Statement of Changes in Equity
For the Six Months Ended 31 December 2013 and 31 December 2012
(Expressed in U.S. Dollars)

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| | Share Capital | Share based Compensation Reserve | Warrants Reserve | Contributed Surplus | Accumulated Other Comprehensive Income | Deficit | Total |
|---|---|---|---|---|---|---|---|
| **Balance, 1 July 2013** | $ 26,674,351 | $ 930,617 | $ 890,954 | $ 22,066,879 | $ (883,488) | $ (30,364,450) | $ 19,314,863 |
| **Private placement, 6 November 2013 (Note 12)** | 5,300,723 | - | - | - | - | - | 5,300,723 |
| **Stock options issued** | - | 33,712 | - | - | - | - | 33,712 |
| **Vesting of issued stock options** | - | 113,394 | - | - | - | - | 113,394 |
| **Exercise of stock options (Note 12)** | 15,533 | - | - | - | - | - | 15,533 |
| **Finder warrants issued (Note 12)** | - | - | 100,638 | - | - | - | 100,638 |
| **Comprehensive loss** | - | - | - | - | (85,262) | (870,557) | (955,819) |
| **Balance, 31 December 2013** | $ 31,990,607 | $ 1,077,723 | $ 991,592 | $ 22,066,879 | $ (968,750) | $ (31,235,007) | $ 23,923,044 |

**STRATA-X ENERGY LTD.**
(Unaudited)
Interim Condensed Consolidated Statement of Changes in Equity (continued)
For the Six Months Ended 31 December 2013 and 31 December 2012
(Expressed in U.S. Dollars)

| | Share Capital | Share based Compensation Reserve | Warrants Reserve | Contributed Surplus | Accumulated Other 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 12)** | 67,620 | - | - | - | - | - | 67,620 |
| **Shares issued in consideration for acquisiton of working interest in oil and gas property (Note 12)** | 762,517 | - | - | - | - | - | 762,517 |
| **Shares issued in consideration for an extension agreement for certain oil and gas interests (Note 12)** | 99,443 | - | - | - | - | - | 99,443 |
| **Private placement, 31 October 2012 (Note 12)** | 244,032 | - | - | - | - | - | 244,032 |
| **Stock options issued** | - | 288,646 | - | - | - | - | 288,646 |
| **Exercise of stock options (Note 12)** | 110,573 | - | - | - | - | - | 110,573 |
| **Finders warrants issued (Note 12)** | - | - | 40,124 | - | - | - | 40,124 |
| **Shares issued on conversion of convertible debentures (Note 12)** | 2,795,512 | - | - | - | - | - | 2,795,512 |
| **Comprehensive income (loss)** | - | - | - | - | 24,461 | (1,355,131) | (1,330,670) |
| **Balance, 31 December 2012** | $ 11,972,914 | $ 665,152 | $ 626,428 | $ 22,066,879 | $ 46,962 | $ (30,372,267) | $ 5,006,068 |

**STRATA-X ENERGY LTD.**
(Unaudited)
Interim Condensed Consolidated Statement of Cash Flows
For the Six Months Ended 31 December 2013 and 31 December 2012
(Expressed in U.S. Dollars)

| | Six months ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| **Cash and cash equivalents provided by (used in):** | | |
| **Operating activities:** | | |
| Net loss for the period | $ (870,557) | $ (1,355,131) |
| Adjustments for: | | |
| Depletion, depreciation and amortization | 33,096 | 1,412 |
| Accretion of decommissioning provisions | 9,959 | 12,075 |
| Accretion of convertible debenture liability | - | 190,588 |
| Share-based compensation | 147,106 | 328,770 |
| Impairment of oil and gas properties | - | 8,623 |
| Dry hole costs | - | 80,000 |
| Gain on valuation of derivative liabilities | (34,326) | (119,910) |
| Gain on conversion of convertible debentures | - | (297,576) |
| Operating cash flow before changes in non-cash working capital | (714,722) | (1,151,149) |
| Changes in non-cash working capital (Note 15) | (259,574) | 83,014 |
| Net cash used in operating activities: | (974,296) | (1,068,135) |
| **Investing activities:** | | |
| Acquisition of exploration and evaluation assets | (4,490,634) | (6,392,478) |
| Acquisition of property and equipment | (2,797) | (42,003) |
| Acquisition of investments | (100,000) | (92) |
| Net cash used in investing activities: | (4,593,431) | (6,434,573) |
| **Financing activities:** | | |
| Proceeds from note payable, related party | - | 2,092,260 |
| Proceeds from issuance of convertible debentures | - | 5,466,872 |
| Proceeds from issuance of common stock | 5,837,355 | 489,272 |
| Proceeds from exercise of stock options | 15,533 | 110,573 |
| Payment of share issuance costs | (435,994) | (522,184) |
| Deposits (paid) received, net | (27,174) | (520,683) |
| Amounts (paid to) received from related parties | (76,550) | 93,472 |
| Net cash provided by financing activities: | 5,313,170 | 7,209,582 |
| **Increase (decrease) in cash and cash equivalents** | (254,557) | (293,126) |
| **Cash and cash equivalents, beginning of period** | 8,566,438 | 2,283,006 |
| **Effect of exchange rate translation** | (87,918) | 24,461 |
| **Cash and cash equivalents, end of period** | $ 8,223,963 | $ 2,014,341 |

*See accompanying notes*

## 1. Nature of Business and Going Concern

### Nature of Business

Strata-X Energy Ltd. (the Company) was incorporated by Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act of Alberta on 18 June 2007. Through its subsidiaries, the Company's business activities are directed primarily toward the acquisition, exploration and development of oil and gas properties in the states of Texas, California, North Dakota, Colorado and Illinois within the United States and within western Australia. 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.

### Going Concern

The interim condensed 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 $870,557 for the six months ended 31 December 2013. There are material uncertainties that may cast significant doubt upon the entity's ability to continue as a going concern.

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, as well as the ability of the Company to obtain additional financing or equity to fund these activities. As discussed in Note 12, in March 2013, the Company completed its initial public offering on the Australian Securities Exchange (ASX) resulting in proceeds of approximately $12,668,000 and completed a private placement in November 2013 resulting in proceeds of approximately $5,301,000. The proceeds of these offerings are have been used to fund exploration and development of the Company's various oil and gas properties as well as ongoing working capital for general and administrative expenses. Management anticipates the need for further financing and/or equity funding in the future to continue to fund budgeted development and operational activities.

The interim condensed 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 interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standards ("IAS") 34, "Interim Financial Reporting", as issued by the "International Accounting Standards Board" ("IASB"). Accordingly, certain financial information and disclosure normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed. The disclosure herein is incremental to the disclosure included in the annual financial statements. The interim condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended 30 June 2013.

The policies applied in these interim condensed consolidated financial statements are based on IFRS issued and outstanding as of 10 February 2014, the date of the Board of Directors approval of the statements.

b) Basis of Measurement

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

c) Functional Currency

The interim condensed 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 interim condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

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

d) Use of Estimates (continued)

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 judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash flows from other assets or groups of assets. CGUs are determined primarily by similar geological structure, shared infrastructure and geographical proximity.

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 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.

(Expressed in U.S. Dollars)

## 3. Significant Accounting Policies

The condensed interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the Company's 30 June 2013 annual financial statements except for the application of new standards or amendments to IFRS effective 1 July 2013 as follows:

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.

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.

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" 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.

## 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 | - | 46,203 | - | 46,203 |
| Interest Expense | - | - | - | - |
| Depreciation | - | 33,096 | - | 33,096 |
| Net loss | 443,030 | 420,326 | 7,201 | 870,557 |
| Assets | 11,106 | 26,075,154 | 284,283 | 26,370,543 |
| Liabilities | 868,466 | 1,570,105 | 8,928 | 2,477,499 |

(Expressed in U.S. Dollars)

5. **Deposits**

Deposits as of 31 December 2013 represent funds held in escrow by the operator of properties located in California in the United States to be utilized toward future exploration activities.

6. **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, Texas, Illinois and North Dakota as restricted amounts to be utilized for potential future remediation of certain properties in these states.

7. **Exploration and Evaluation Assets**

| | **Six months ended 31 December 2013** | Year ended 30 June 2013 |
|---|---|---|
| Balance, beginning of period | **$ 12,303,585** | $ 3,481,188 |
| Addition | **4,808,119** | 8,989,036 |
| Impairment incurred | **-** | (40,564) |
| Dry hole costs expensed | **-** | (126,075) |
| Balance, end of period | **$ 17,111,704** | **$ 12,303,585** |

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.

8. **Amounts due to Related Parties**

Amounts due to companies controlled by directors of the Company are unsecured, bear no interest and have no specific terms of repayment. See further discussion of related party amounts in Note 16.

9. **Convertible Debentures**

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 when the initial public offering related to the listing of shares of the Company on the ASX was closed. 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 when the initial public offering related to the listing of shares of the Company on the ASX was closed. 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)

9. **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 2012 | $ 2,705,442 | $ 258,404 | $ 2,963,846 |
| Issuance of debentures | 3,674,552 | 704,140 | 4,378,692 |
| Accretion | 200,036 | - | 200,036 |
| Derivative loss on revaluation | - | 515,510 | 515,510 |
| Conversion of debentures | (6,672,204) | (1,484,834) | (8,157,038) |
| Foreign exchange loss | 92,174 | 6,780 | 98,954 |
| Balance, 30 June 2013 and 31 December 2013 | $ - | $ - | $ - |

(Expressed in U.S. Dollars)

## 10. Property and Equipment

| | Cost | | | | | | |
|---|---|---|---|---|---|---|---|
| | Balance at 1 July 2012 | Additions | Disposals and Adjustments | Balance at 30 June 2013 | Additions | Disposals and Adjustments | Balance at 31 December 2013 |
| Oil and gas properties | $ 4,774,487 | $ 402,243 | $ (4,621,813) | $ 554,917 | $ - | $ - | $ 554,917 |
| Computer equipment and software | 7,464 | 7,518 | - | 14,982 | 2,796 | - | 17,778 |
| | $ 4,781,951 | $ 409,761 | $ (4,621,813) | $ 569,899 | $ 2,796 | $ - | $ 572,695 |

| | Accumulated Depletion, Depreciation, Amortization and Impairment | | | | | | |
|---|---|---|---|---|---|---|---|
| | Balance at 1 July 2012 | Additions | Disposals | Balance at 30 June 2013 | Additions | Disposals | Balance at 31 December 2013 |
| Oil and gas properties | $ 4,619,274 | $ 41,084 | $ (4,619,761) | $ 40,597 | $ 31,387 | $ - | $ 71,984 |
| Computer equipment and software | 1,319 | 1,869 | - | 3,188 | 1,709 | - | 4,897 |
| | $ 4,620,593 | $ 42,953 | $ (4,619,761) | $ 43,785 | $ 33,096 | $ - | $ 76,881 |

| | Net Book Value | |
|---|---|---|
| | Balance at 30 June 2013 | Balance at 31 December 2013 |
| Oil and gas properties | $ 514,320 | $ 482,933 |
| Computer equipment and software | 11,794 | 12,881 |
| | $ 526,114 | $ 495,814 |

During the year ended 30 June 2013, the Company relinquished its interest in the Flour Bluff property and recorded a disposal of $4,579,810 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.

(Expressed in U.S. Dollars)

## 11. **Decommissioning Provisions**

| | **Six months ended 31 December 2013** | Year ended 30 June 2013 |
|---|---|---|
| Balance, beginning of period | **$ 639,061** | $ 571,719 |
| Change in estimate | **-** | 12,370 |
| Retirement of obligation | **-** | (25,000) |
| Net present value of new obligation | **-** | 60,000 |
| Accretion expense | **9,959** | 19,972 |
| Balance, end of period | **$ 649,020** | **$ 639,061** |

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 2013 - $839,160) and are expected to be realized over a period of approximately 14 years.

(Expressed in U.S. Dollars)

## 12. 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 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 |
| Exercise of stock options | 160,000 | 15,533 |
| Shares issued for cash, 6 November 2013 | 15,872,962 | 5,837,355 |
| Share issuance costs | - | (536,632) |
| Balance at 31 December 2013 | 139,785,415 | $ 31,990,607 |

As at 31 December 2013, 5,530,000 common shares were in escrow pursuant to TSX Escrow agreements dated 11 July 2008 and 9 September 2011.

12. **Share Capital (continued)**

**Common Stock Offerings**

As discussed in Note 9, the Company completed a second private placement of common stock and convertible debentures on 13 July 2012 pursuant to an extension of an 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 $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.

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 9. 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.

12. **Share Capital (continued)**

**Common Stock Offerings (continued)**

On 20 February 2013, the Company completed its initial public offering of 42,303,293 CHESS depository interests (CDI) at a price of AUD$0.30 per CDI with each CDI equivalent to and exchangeable for one common share of stock of the Company. The CDI 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.

On 6 November 2013, the Company completed a private placement of 15,872,962 CDIs with each CDI equivalent to and exchangeable for one common share of stock of the Company. The CDIs trade on the ASX. The offering resulted in proceeds of CDN$6,082,042 (AUD$6,031,726). Share issuance costs of $536,632 have been netted against the proceeds from the issuance. CDIs issued in this private placement are not subject to any trading restrictions, providing however, that any share transmutation into TSX.V shares of the Company from this private placement before 7 March 2014 will be subject to a trading restriction until after this date on the TSX.V.

**Conversion of Convertible Debentures**

As discussed in Note 9, 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 9, 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 9, 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 9, 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 amounts 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.

12. **Share Capital (continued)**

**Stock Purchase Warrants**

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. Another 154,868 common share purchase warrants were issued on conversion of the accrued interest related to convertible debentures on 12 February 2013. An additional 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:

| | **Six months ended 31 December 2013** | 30 June 2013 |
|---|---|---|
| Balance, beginning of period | **$ 906,649** | $ 555,629 |
| Additions | **-** | 1,411,220 |
| Fair value adjustments | **(36,983)** | (1,060,200) |
| Balance, end of period | **$ 869,666** | **$ 906,649** |

The fair value of the derivative warrants was determined as at 31 December 2013 and 30 June 2013 using the following weighted average assumptions:

| | 31 December 2013 | 30 June 2013 |
|---|---|---|
| Risk-free rate | 0.47% | 0.42% |
| Expected life (years) | 1.8 | 2.3 |
| Expected volatility | 72.8% | 83.6% |
| Dividend yield | 0.0% | 0.0% |

(Expressed in U.S. Dollars)

12. **Share Capital (continued)**

**Stock Purchase Warrants (continued)**

Finder warrants

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 arms 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 finder common share purchase warrants were issued on 20 February 2013 to the joint lead managers for the Australian initial public offering, with each finder warrant exercisable at AUD$0.36 per share to acquire one CDI of the Company until 20 February 2016, at which time the warrants expire. The fair value of the finder warrants of AUD$265,006 (US$264,529) is reflected as share issuance costs during the year ended 30 June 2013.

A total of 603,172 finder common share purchase warrants were issued on 6 November 2013 to the joint lead managers for the private placement of CDI closed on this date, with each finder warrant exercisable at AUD$0.50 per share to acquire one CDI of the Company until 6 November 2016, at which time the warrants expire. The fair value of the finder warrants of AUD$105,732 (US$100,638) is reflected as share issuance costs during the six months ended 31 December 2013.

Finder 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 finder warrants issued during the year ended 30 June 2013 and the six months ended 31 December 2013 are measured using the Black Scholes model with the following weighted average assumptions:

| | 31 December 2013 | 30 June 2013 |
|---|---|---|
| Risk-free rate | 1.42% | 0.59% |
| Expected life (years) | 3.0 | 3.0 |
| Expected volatility | 80.5% | 85.3% |
| Dividend yield | 0.0% | 0.0% |

(Expressed in U.S. Dollars)

12. **Share Capital (continued)**

**Stock Purchase Warrants (continued)**

Activity related to common share purchase warrants for the Company for the six months ended 31 December 2013 and 31 December 2012 is as follows:

| | Six months ended 31 December 2013 | | | Year ended 30 June 2013 | | |
|---|---|---|---|---|---|---|
| | Number | Weighted Average Exercise Price | Currency | Number | Weighted Average Exercise Price | Currency |
| Balance, beginning of period | 20,045,482 | $ 0.49 | CDN/AUD | 19,568,231 | $ 0.50 | 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 | AUD |
| Expiration of warrants | - | - | - | (16,812,731) | 0.50 | CDN |
| Finder warrants - 6 November 2013 | 603,172 | 0.50 | AUD | - | - | - |
| Balance, end of period | 20,648,654 | $ 0.49 | | 20,045,482 | $ 0.49 | |

(Expressed in U.S. Dollars)

12. **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 table below summarizes the activity of the stock options as follows:

| | Six months ended 31 December 2013 | | Year ended 30 June 2013 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding, beginning of period | 5,080,000 | $ 0.34 | 3,092,500 | $ 0.22 |
| Granted | 850,000 | 0.42 | 3,120,000 | 0.37 |
| Exercised | (160,000) | 0.10 | (1,087,500) | 0.10 |
| Expired and forfeited | (200,000) | 0.30 | (45,000) | 0.10 |
| Outstanding, end of period | 5,570,000 | $ 0.36 | 5,080,000 | $ 0.34 |
| Exercisable, end of period | 4,590,000 | $ 0.35 | 4,465,000 | $ 0.34 |

(Expressed in U.S. Dollars)

12. **Share Capital (continued)**

**Stock Option Plan (continued)**

The following table summarizes information on stock options outstanding and exercisable at 31 December 2013:

| Exercise Price | | Currency | Number Outstanding | Number Exercisable | Weighted Average Contractual Life (years) |
|---|---|---|---|---|---|
| $ | 0.30 | CDN | 2,820,000 | 2,565,000 | 8.25 |
| $ | 0.34 | CDN | 1,000,000 | 1,000,000 | 8.73 |
| $ | 0.50 | AUD | 850,000 | 850,000 | 1.11 |
| $ | 0.50 | CDN | 100,000 | 75,000 | 4.30 |
| $ | 0.41 | CDN | 800,000 | 100,000 | 4.81 |

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 | | | | |
|---|---|---|---|---|---|
| | $0.30 CDN | $0.34 CDN | $0.50 AUD | $0.50 CDN | $0.41 CDN |
| Weighted average grant date fair value | $0.24 | $0.34 | $0.32 | $0.28 | $0.41 |
| Expected dividend rate | 0% | 0% | 0% | 0% | 0% |
| Expected volatility | 104% | 83% | 93% | 82% | 81% |
| Risk-free interest rate | 1.87% | 1.81% | 0.30% | 0.67% | 1.89% |
| Expected life of options (years) | 10 | 10 | 1.82 | 5 | 5 |

The fair value of the 3,120,000 stock options granted and vested during the year ended 30 June 2013 is $554,111. The fair value of the 850,000 stock options granted and vested during the six months ended 31 December 2013 is $147,106. 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)

## 13. 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 is classified as equity.

## 14. 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 three and six months periods ended 31 December 2013 of 133,401,724 and 128,622,306, respectively (2012 – 51,593,017 and 48,463,490, 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.

## 15. Details of Cash from Operating Activities

Changes in non-cash working capital items:

| | Six months ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| Accounts receivable | $ 24,120 | $ 227,283 |
| Prepaids and other | (118,923) | 13,129 |
| Accounts payable and accrued liabilities | (164,771) | (157,398) |
| | $ (259,574) | $ 83,014 |

16. **Related Party Transactions**

The Company formerly utilized the services of an outside firm in which the President and Chief Executive Officer (CEO) of the Company is a majority shareholder. The Company terminated its contractual services with the firm in May 2013 when the CEO became a salaried employee of the Company. During the six months ended 31 December 2013, the Company paid $45,000 in costs to the outside firm for reimbursement of prior expenses owed to the firm. During the six months ended 31 December 2012, the Company incurred $286,996 in costs with the outside firm for consulting services. These costs are allocated to general and administrative expenses and exploration and evaluation assets. At 31 December 2013, the Company owed the firm $0 (2012 - $269,831), 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 for ongoing accounting, reporting and tax compliance services calls for monthly retainer payments of approximately $6,100. During the six months ended 31 December 2013, the Company incurred $39,200 (2012 - $48,000) in costs with the outside firm for accounting services. These costs are allocated to general and administrative expenses and exploration and evaluation assets. Further, the Company formerly 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. During the six months ended 31 December 2012, the Company incurred $63,764 in costs with this consultant.

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 AUD $2,500. During the six months ended 31 December 2013, the Company incurred CDN $15,805 and AUD $12,901 in costs with the outside consultants for Canada and Australia, respectively, for corporate services, all of which are included in general and administrative expenses.

Total compensation paid to key management personnel, including the related parties identified above, together with incentive stock compensation related to the granting and vesting of stock options during the period, was approximately $344,400 (2012 - $500,000) for the six months ended 31 December 2013.

17. **Financial Instruments**

The Company's financial instruments consist of cash and cash equivalents, other assets, accounts receivable, accounts payable and accrued liabilities, derivative warrants 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.

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.

**Interest rate risk**

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

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

**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.

**Credit risk**

The Company's exposure to credit risk relates to cash and accounts receivables 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 and 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 31 December 2013, the Company had a positive working capital of $7,571,367.

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.