

**STRATA-X ENERGY LTD.**  
Consolidated Financial Statements  
Years Ended 30 June 2015 and 2014  
(Expressed in U.S. Dollars)

## INDEPENDENT AUDITORS' REPORT

### To the Shareholders of Strata-X Energy Ltd.

We have audited the accompanying consolidated financial statements of Strata-X Energy Ltd., which comprise the consolidated statements of financial position as at June 30, 2015 and June 30, 2014 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended June 30, 2015 and June 30, 2014 and a summary of significant accounting policies and other explanatory information.

#### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Strata-X Energy Ltd. as at June 30, 2015 and June 30, 2014, and its financial performance and its cash flows for the years ended June 30, 2015 and June 30, 2014 in accordance with International Financial Reporting Standards.

#### **Emphasis of Matter**

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

*Collins Barrow Edmonton LLP*

Edmonton, Alberta  
September 14, 2015

Chartered Accountants

**STRATA-X ENERGY LTD.**

## Consolidated Statement of Financial Position

30 June 2015 and 30 June 2014

(Expressed in U.S. Dollars)

	2015	2014
ASSETS:		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 957,410	\$ 3,758,172
Accounts receivable, net of allowance	94,861	116,360
Prepays, deposits and other	15,980	36,920
<b>Total current assets</b>	<b>1,068,251</b>	<b>3,911,452</b>
<b>Other assets (Note 5)</b>	<b>244,343</b>	<b>326,060</b>
<b>Exploration and evaluation assets (Note 6)</b>	<b>7,281,780</b>	<b>22,176,955</b>
<b>Property and equipment (Note 7)</b>	<b>1,744,139</b>	<b>2,194,484</b>
<b>Total assets</b>	<b>\$ 10,338,513</b>	<b>\$ 28,608,951</b>
LIABILITIES:		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 443,428	\$ 1,600,375
Deposits	117,070	23,126
Amounts due to related parties (Notes 8 and 15)	402,014	367,168
Derivative warrants (Note 10)	-	115,734
<b>Total current liabilities</b>	<b>962,512</b>	<b>2,106,403</b>
<b>Derivative warrants (Note 10)</b>	<b>26,456</b>	<b>439,545</b>
<b>Accrued liabilities</b>	<b>63,048</b>	<b>63,048</b>
<b>Decommissioning provisions (Note 9)</b>	<b>993,683</b>	<b>916,934</b>
<b>Total liabilities</b>	<b>2,045,699</b>	<b>3,525,930</b>
SHAREHOLDERS' EQUITY:		
<b>Share capital (Note 10)</b>	<b>34,934,188</b>	<b>33,524,413</b>
<b>Share based compensation reserve (Note 10)</b>	<b>1,326,160</b>	<b>1,152,318</b>
<b>Warrant reserve (Note 10)</b>	<b>1,009,486</b>	<b>1,009,486</b>
<b>Contributed surplus (Note 11)</b>	<b>22,066,879</b>	<b>22,066,879</b>
<b>Accumulated other comprehensive income</b>	<b>(822,008)</b>	<b>(895,570)</b>
<b>Deficit</b>	<b>(50,221,891)</b>	<b>(31,774,505)</b>
<b>Total shareholders' equity</b>	<b>8,292,814</b>	<b>25,083,021</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 10,338,513</b>	<b>\$ 28,608,951</b>

**Subsequent event (Note 18)****Commitment (Note 19)**

Approved on behalf of the Board

\_\_\_\_\_  
Director

See accompanying notes

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Director

**STRATA-X ENERGY LTD.**

Consolidated Statement of Comprehensive Loss  
For the Years Ended 30 June 2015 and 30 June 2014  
(Expressed in U.S. Dollars)

	<b>2015</b>	<b>2014</b>
<b>Revenue</b>		
Oil and gas sales	\$ 1,105,948	\$ 234,198
Royalties	<u>(151,949)</u>	<u>(34,118)</u>
	953,999	200,080
<b>Expenses</b>		
Production and exploration	499,814	396,459
General and administrative	1,621,468	1,369,881
Depletion, depreciation and amortization	153,527	82,944
Impairment	<u>17,576,122</u>	<u>-</u>
	19,850,931	1,849,284
<b>Net operating loss</b>	(18,896,932)	(1,649,204)
<b>Other income</b>	30,150	-
<b>Gain on valuation of derivative liabilities (Note 10)</b>	489,871	309,851
<b>Net finance expense</b>	<u>(70,475)</u>	<u>(70,702)</u>
<b>Net loss</b>	(18,447,386)	(1,410,055)
<b>Other comprehensive income (loss)</b>		
<i>Items that will not be reclassified subsequently to profit or loss</i>	-	-
<i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange differences in translating foreign operations	<u>73,562</u>	<u>(12,082)</u>
<b>Other comprehensive income (loss) for the period</b>	<u>73,562</u>	<u>(12,082)</u>
<b>Comprehensive loss</b>	<u><u>\$ (18,373,824)</u></u>	<u><u>\$ (1,422,137)</u></u>
Net loss per common share, basic and diluted (Note 12)	\$ (0.12)	\$ (0.01)

See accompanying notes

**STRATA-X ENERGY LTD.**

## Consolidated Statement of Changes in Equity

Years Ended 30 June 2015 and 30 June 2014

(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
<b>Balance, 1 July 2014</b>	\$ 33,524,413	\$ 1,152,318	\$ 1,009,486	\$ 22,066,879	\$ (895,570)	\$ (31,774,505)	\$ 25,083,021
<b>Private placement, 7 December 2014 (Note 10)</b>	852,691	-	-	-	-	-	852,691
<b>Private placement, 21 December 2014 (Note 10)</b>	138,420	-	-	-	-	-	138,420
<b>Shares issued on debt conversion (Note 10)</b>	418,664	-	-	-	-	-	418,664
<b>Share-based compensation (Note 10)</b>	-	173,842	-	-	-	-	173,842
<b>Comprehensive income (loss)</b>	-	-	-	-	73,562	(18,447,386)	(18,373,824)
<b>Balance, 30 June 2015</b>	<u>\$ 34,934,188</u>	<u>\$ 1,326,160</u>	<u>\$ 1,009,486</u>	<u>\$ 22,066,879</u>	<u>\$ (822,008)</u>	<u>\$ (50,221,891)</u>	<u>\$ 8,292,814</u>

*See accompanying notes*

**STRATA-X ENERGY LTD.**

Consolidated Statement of Changes in Equity  
Years Ended 30 June 2015 and 30 June 2014  
(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
<b>Balance, 1 July 2013</b>	\$ 26,674,351	\$ 930,617	\$ 890,954	\$ 22,066,879	\$ (883,488)	\$ (30,364,450)	\$ 19,314,863
<b>Private placement, 6 November 2013 (Note 10)</b>	5,300,723	-	-	-	-	-	5,300,723
<b>Private placement, 23 June 2014 (Note 10)</b>	1,533,806	-	-	-	-	-	1,533,806
<b>Share-based compensation (Note 10)</b>	-	221,701	-	-	-	-	221,701
<b>Exercise of stock options (Note 10)</b>	15,533	-	-	-	-	-	15,533
<b>Finders warrants issued (Note 10)</b>	-	-	118,532	-	-	-	118,532
<b>Comprehensive loss</b>	-	-	-	-	(12,082)	(1,410,055)	(1,422,137)
<b>Balance, 30 June 2014</b>	<u>\$ 33,524,413</u>	<u>\$ 1,152,318</u>	<u>\$ 1,009,486</u>	<u>\$ 22,066,879</u>	<u>\$ (895,570)</u>	<u>\$ (31,774,505)</u>	<u>\$ 25,083,021</u>

*See accompanying notes*

**STRATA-X ENERGY LTD.**

## Consolidated Statement of Cash Flows

For the Years Ended 30 June 2015 and 30 June 2014

(Expressed in U.S. Dollars)

	2015	2014
<b>Cash and cash equivalents provided by (used in):</b>		
<b>Operating activities:</b>		
Net loss for the period	\$ (18,447,386)	\$ (1,410,055)
Adjustments for:		
Depletion, depreciation and amortization	153,527	82,944
Accretion of decommissioning provisions	76,749	87,219
Share-based compensation	173,842	221,701
Impairment of oil and gas properties	17,576,122	-
Provision for bad debt	156,090	-
Gain on valuation of derivative liabilities	(489,871)	(309,851)
Operating cash flow before changes in non-cash working capital	(800,927)	(1,328,042)
Changes in non-cash working capital (Note 13)	(307,581)	125,506
Net cash used in operating activities:	(1,108,508)	(1,202,536)
<b>Investing activities:</b>		
Acquisition of exploration and evaluation assets	(3,345,893)	(8,919,560)
Acquisition of property and equipment	(1,254)	(1,789,783)
Proceeds from (acquisition of) investments	81,155	(100,000)
Net cash used in investing activities:	(3,265,992)	(10,809,343)
<b>Financing activities:</b>		
Proceeds from issuance of common stock	1,478,621	7,660,626
Proceeds from exercise of stock options	-	15,533
Payment of share issuance costs	(68,846)	(707,565)
Deposits (paid) received, net	93,944	(1,774)
Amounts received from related parties	34,846	290,618
Net cash provided by financing activities:	1,538,565	7,257,438
<b>Decrease in cash and cash equivalents</b>	(2,835,935)	(4,754,441)
<b>Cash and cash equivalents, beginning of period</b>	3,758,172	8,566,438
<b>Effect of exchange rate translation</b>	35,173	(53,825)
<b>Cash and cash equivalents, end of period</b>	\$ 957,410	\$ 3,758,172

*See accompanying notes*

**STRATA-X ENERGY LTD.**  
Notes to the Consolidated Financial Statements  
30 June 2015 and 30 June 2014  
(Expressed in U.S. Dollars)

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**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 and Illinois within the United States and within Western Australia, Australia. In October 2012, the Company 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 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 \$18,447,386 for the year ended 30 June 2015 (2014 - \$1,410,055) and has an accumulated deficit of \$50,221,891 as of 30 June 2015 (2014 - \$31,774,505). There is a material uncertainty that may cast significant doubt about the ability of the Company 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 the exploration and development of those oil and gas properties. 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 private placements in November 2013, June 2014 and December 2014 resulting in proceeds of approximately \$7,845,000 in total. In addition, the Company completed a private placement for proceeds of \$610,800 (AUD \$824,800) subsequent to year end (Note 18). The proceeds of such offerings are utilized primarily towards funding of exploration and development of 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.

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.



## **STRATA-X ENERGY LTD.**

### Notes to the Consolidated Financial Statements

30 June 2015 and 30 June 2014

(Expressed in U.S. Dollars)

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#### **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 14 September 2015, 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. The parent Company's functional currency is the Canadian dollar. The functional currency of the Company's United States subsidiary and Australian subsidiary are United States and Australian dollars, respectively.

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.

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.

## **STRATA-X ENERGY LTD.**

Notes to the Consolidated Financial Statements

30 June 2015 and 30 June 2014

(Expressed in U.S. Dollars)

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### **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 decision to transfer exploration and evaluation assets to property and equipment is based on management's determination of the area's technical feasibility and commercial viability. The Company assesses whether there is indication of impairment for exploration and evaluation assets each reporting period and upon transfer to property and equipment.

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.

**STRATA-X ENERGY LTD.**  
Notes to the Consolidated Financial Statements  
30 June 2015 and 30 June 2014  
(Expressed in U.S. Dollars)

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**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 net earnings.

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 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.

**STRATA-X ENERGY LTD.**  
Notes to the Consolidated Financial Statements  
30 June 2015 and 30 June 2014  
(Expressed in U.S. Dollars)

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**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 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 estimates of 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.

## **STRATA-X ENERGY LTD.**

Notes to the Consolidated Financial Statements

30 June 2015 and 30 June 2014

(Expressed in U.S. Dollars)

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### **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, 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 or property and equipment asset 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 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.

The financial statements of entities that have a functional currency different from the presentation currency are translated into United States dollars at the exchange rate at the date of the statement of financial position for assets and liabilities, and at the average rate for revenues and expenses. All resulting changes are recognized as other comprehensive income.

**STRATA-X ENERGY LTD.**  
Notes to the Consolidated Financial Statements  
30 June 2015 and 30 June 2014  
(Expressed in U.S. Dollars)

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

**Business Combinations**

Business combinations are accounted for using the acquisition method. The identifiable net assets acquired are measured at their fair value at the date of acquisition. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in the Consolidated Statement of Comprehensive Loss. Transaction costs associated with the acquisition are expensed when incurred.

**Stock-Based Compensation**

The Company has a Stock Option Plan as described in Note 10 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 share based compensation reserve 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".

**STRATA-X ENERGY LTD.**  
Notes to the Consolidated Financial Statements  
30 June 2015 and 30 June 2014  
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**3. Summary of Significant Accounting Policies (continued)**

**Financial Instruments (continued)**

a) Classification and Measurement (continued)

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 as “designated at fair value through the statement of profit or loss”.

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 other assets as “loans and receivables” and accounts payable, accrued liabilities, and amounts due to related parties 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) Derivative Financial Liabilities

Derivative instruments, including embedded derivatives, are recorded at their fair value on the date the derivative contract is entered into. They are subsequently re-measured at their fair value at each statement of financial position date, and the changes in the fair value are recognized in profit or loss. Fair values for derivative instruments are determined using valuation techniques, with assumptions based on market conditions existing at the consolidated statement of financial position date.

Financial instruments denominated in a foreign currency different from the functional currency of the Company meet the definition of a derivative financial liability and are fair valued at each statement of financial position date using the Black-Scholes option pricing model, with changes in the fair value recognized in profit or loss.

c) Impairment

The Company assesses at each statement of financial position 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.

## **STRATA-X ENERGY LTD.**

Notes to the Consolidated Financial Statements

30 June 2015 and 30 June 2014

(Expressed in U.S. Dollars)

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

#### **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 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 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.

#### **Income Taxes**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss 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 by 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.



## **STRATA-X ENERGY LTD.**

Notes to the Consolidated Financial Statements

30 June 2015 and 30 June 2014

(Expressed in U.S. Dollars)

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

#### **Adoption of New Accounting Policies**

IAS 32 “Financial Instruments, Presentation” (“IAS 32”) was amended to clarify that the right of offset must be available on the current date and cannot be contingent on a future date. IAS 32 is effective for the Company beginning 1 July 2014. The adoption of IAS 32 by the Company had no material impact on the overall consolidated financial statements.

In May 2013, IAS 36 “Impairment of Assets” (“IAS 36”) was amended by the IASB to clarify the requirements to disclose the recoverable amounts of impaired assets and require additional disclosures about the measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendment to IAS 36 is effective for the Company beginning 1 July 2014. The additional disclosures required as a result of adoption of this standard have been included in the Company’s disclosures in the notes to the consolidated financial statements.

IFRIC 21 “Interpretation of IAS 37 Provisions, Contingent Liabilities and Assets”. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event. The interpretation clarifies that the obligation that gives rise to the liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for the Company beginning 1 July 2014. The adoption of IFRIC 21 by the Company had no material impact on the consolidated financial statements.

#### **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 2018.

IFRS 15 “Revenue from Contracts with Customers” (“IFRS 15”) was issued by the IASB in May 2014 and will replace IAS 11 “Construction Contracts”, IAS 18 “Revenue”, IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfers of Assets from Customers” and SIC-31 “Revenue – Barter Transactions Involving Advertising Services”. IFRS 15 provides new standards for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework that applies to contracts with customers. The new standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.

Management is currently assessing the potential impact of the adoption of these new standards on the Company’s consolidated financial statements.

## STRATA-X ENERGY LTD.

Notes to the Consolidated Financial Statements

30 June 2015 and 30 June 2014

(Expressed in U.S. Dollars)

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

#### Segment Reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenditures. Segment results, assets and capital expenditures include items directly attributable to a segment as well as those that can be allocated on a reasonable basis, and for which discrete financial information is available. All geographic segments are regularly reviewed by management in order to assess performance and allocate resources.

### 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 as of and for the year ended 30 June 2014 is as follows:

	Canada	United States	Australia	Total
Revenues	-	200,080	-	200,080
Interest Expense	-	-	-	-
Depreciation	-	82,944	-	82,944
Net loss	574,980	815,056	20,019	1,410,055
Assets	18,334	26,494,949	2,095,668	28,608,951
Liabilities	639,188	2,532,836	353,906	3,525,930

Segmented information by geographic location as of and for the year ended 30 June 2015 is as follows:

	Canada	United States	Australia	Total
Revenues	-	953,999	-	953,999
Interest Expense	-	-	-	-
Depreciation	-	153,527	-	153,527
Net loss	402,227	18,038,879	6,280	18,447,386
Assets	48,412	10,161,574	128,527	10,338,513
Liabilities	146,056	1,817,962	81,681	2,045,699

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

**STRATA-X ENERGY LTD.**

## Notes to the Consolidated Financial Statements

30 June 2015 and 30 June 2014

(Expressed in U.S. Dollars)

**6. Exploration and Evaluation Assets**

	<u>30 June 2015</u>	<u>30 June 2014</u>
Balance, beginning of period	\$ 22,176,955	\$ 12,303,585
Addition	2,382,877	9,873,370
Transfer to property and equipment	(4,904,923)	-
Impairment	<u>(12,373,129)</u>	<u>-</u>
Balance, end of period	<u>\$ 7,281,780</u>	<u>\$ 22,176,955</u>

During the year ended 30 June 2015, the Company recorded an impairment of \$7,638,258 related to properties located in Texas, \$3,777,282 related to properties in Illinois and \$957,589 related to properties in North Dakota as a result of leases expiring on management's intention not to renew the leases.

Capitalized general and administrative expenses that comprise additions to exploration and evaluation assets above for the years ended 30 June 2015 and 30 June 2014 are \$523,806 and \$605,818, respectively.

**STRATA-X ENERGY LTD.**  
Notes to the Consolidated Financial Statements  
30 June 2015 and 30 June 2014  
(Expressed in U.S. Dollars)

**7. Property and Equipment**

		<b>Cost</b>						
		<b>Balance at 1 July 2013</b>	<b>Additions</b>	<b>Disposals and Adjustments</b>	<b>Balance at 30 June 2014</b>	<b>Additions</b>	<b>Disposals and Adjustments</b>	<b>Balance at 30 June 2015</b>
Oil and gas properties	\$	554,917	\$ 1,748,519	\$ -	\$ 2,303,436	\$ 4,904,923	\$ -	\$ 7,208,359
Computer equipment and software		14,982	2,796	-	17,778	1,254	-	19,032
	<b>\$</b>	<b>569,899</b>	<b>\$ 1,751,315</b>	<b>\$ -</b>	<b>\$ 2,321,214</b>	<b>\$ 4,906,177</b>	<b>\$ -</b>	<b>\$ 7,227,391</b>
		<b>Accumulated Depletion, Depreciation, Amortization and Impairment</b>						
		<b>Balance at 1 July 2013</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance at 30 June 2014</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance at 30 June 2015</b>
Oil and gas properties	\$	40,597	\$ 79,339	\$ -	\$ 119,936	\$ 5,352,782	\$ -	\$ 5,472,718
Computer equipment and software		3,188	3,606	-	6,794	3,740	-	10,534
	<b>\$</b>	<b>43,785</b>	<b>\$ 82,945</b>	<b>\$ -</b>	<b>\$ 126,730</b>	<b>\$ 5,356,522</b>	<b>\$ -</b>	<b>\$ 5,483,252</b>
		<b>Net Book Value</b>						
		<b>Balance at 30 June 2014</b>	<b>Balance at 30 June 2015</b>					
Oil and gas properties	\$	2,183,500	\$ 1,735,641					
Computer equipment and software		10,984	8,498					
	<b>\$</b>	<b>2,194,484</b>	<b>\$ 1,744,139</b>					

During the year ended 30 June 2015, the Company transferred a property located in Illinois from an exploration and evaluation asset to a developed and producing asset as it is management's assessment the property reached a point of economic viability. The property had a capitalized value of \$4,904,923.

## STRATA-X ENERGY LTD.

Notes to the Consolidated Financial Statements

30 June 2015 and 30 June 2014

(Expressed in U.S. Dollars)

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### 7. Property and Equipment (continued)

#### Impairment

The Company assesses many factors when determining if an impairment test should be performed. During the year, the Company determined that impairment indicators existed for the Company's CGUs. In performing the review, management determined that the recent decline in commodity pricing and the impact these price declines have on the economic performance of the Company's CGUs justified calculation of the recoverable amount of all CGUs.

Impairment tests were carried out during the year. The recoverable amounts of the specific CGUs were estimated at the fair value less costs of disposal based on the net present value of the before tax future net cash flows from oil and natural gas proved and probable reserves using forecasted prices and costs estimated by the Company's external reserve evaluators as at 30 June 2015. The future net cash flows for all impairment test calculations performed were discounted at a rate of 10% per annum. The recoverable amounts of the Company's CGUs were determined based on fair value less costs of disposal. Key assumptions in the determination of cash flow from reserves include crude oil and natural gas prices and the discount rate. The fair value less costs of disposal values used to determine the recoverable amounts of property, plant and equipment are classified as Level 3 fair value measurements as they are not based on observable market data.

For the year ended 30 June 2015, an impairment loss of \$5,202,993 was recognized related to properties located in Illinois and has been included in impairment expense in the consolidated statement of comprehensive loss.

The following represent the forecasted prices used to determine fair values in the 30 June 2015 impairment test:

<u>Calendar year</u>	<u>Average USD price per barrel</u>
2015 (6 months)	\$60.00
2016	\$66.00
2017	\$73.00
2018	\$78.00
2019	\$82.00
2020	\$86.00
2021	\$90.00
2022 and thereafter	2% escalation

**STRATA-X ENERGY LTD.**

## Notes to the Consolidated Financial Statements

30 June 2015 and 30 June 2014

(Expressed in U.S. Dollars)

**7. Property and Equipment (continued)**

The following represent the forecasted prices used to determine fair values in the 30 June 2014 impairment test:

<u>Calendar year</u>	<u>Average USD price per barrel</u>
2014 (6 months)	\$100.00
2015	\$96.00
2016	\$94.00
2017	\$95.00
2018	\$97.00
2019	\$98.00
2020	\$100.00
2021	\$100.00
2022 and thereafter	2% escalation

**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 15.

**9. Decommissioning Provisions**

	<u>30 June 2015</u>	<u>30 June 2014</u>
Balance, beginning of period	\$ 916,934	\$ 639,061
Net present value of new obligation	-	190,654
Change in assumptions	51,278	64,953
Change in cash flow estimates	1,144	-
Accretion expense	24,327	22,266
Balance, end of period	<u>\$ 993,683</u>	<u>\$ 916,934</u>

The Company has calculated the fair value of decommissioning provisions using a range of discount rates from 2.4% to 4.8% (2014 – 2.8% to 4.6%). The estimated undiscounted future cash flows to settle decommissioning provisions are \$1,163,755 (30 June 2014 - \$1,162,525) and are expected to be realized over a period defined as the remaining useful life in the Company's most recent reserve report which ranges from two to twenty-three years.

**STRATA-X ENERGY LTD.**  
Notes to the Consolidated Financial Statements  
30 June 2015 and 30 June 2014  
(Expressed in U.S. Dollars)

**10. 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:

	<u>Number</u>	<u>Amount</u>
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)
Shares issued for cash, 23 June 2014	6,503,554	1,704,739
Share issuance costs	-	(170,933)
Balance at 30 June 2014	146,288,969	33,524,413
Shares issued for cash, 7 December 2014	6,518,230	921,537
Share issuance costs	-	(68,846)
Shares issued on debt conversion	2,777,778	418,664
Shares issued for cash, 21 December 2014	1,000,000	138,420
Balance at 30 June 2015	<u>156,584,977</u>	<u>\$ 34,934,188</u>

**Common Stock Offerings**

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 US\$5,837,355 (AUD\$6,031,726). Share issuance costs of \$536,632 have been netted against the proceeds from the issuance.

On 23 June 2014, the Company completed a private placement of 6,503,554 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 US\$1,704,739 (AUD \$1,820,995). Share issuance costs of \$170,933 have been netted against the proceeds from the issuance.

## STRATA-X ENERGY LTD.

### Notes to the Consolidated Financial Statements

30 June 2015 and 30 June 2014

(Expressed in U.S. Dollars)

#### 10. Share Capital (continued)

##### Common Stock Offerings (continued)

On 7 December 2014 the Company completed a private placement of 6,518,230 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 US\$921,537 (AUD\$1,108,099). Share issuance costs of US\$68,846 have been netted against the proceeds from the issuance.

On 21 December 2014 the Company closed a second tranche of the 7 December private placement with the issuance of an additional 1,000,000 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 US\$138,420 (AUD\$170,000).

##### Conversion of Debt

In November 2014, the Company entered into loan agreements with three directors of the Company, including the President and CEO of the Company. The loan balances totalled US\$418,664 (AUD\$500,000), were unsecured and did not accrue interest. The notes contained a conversion feature to convert the loan balances to CDIs at the higher of AUD\$0.18 per CDI or the closing price of CDIs on the ASX the day prior to conversion. On 21 December 2014 the Company issued 2,777,778 CDIs as repayment of the notes.

##### Stock Purchase Warrants

Stock purchase 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:

	<u>30 June 2015</u>	<u>30 June 2014</u>
Balance, beginning of period	\$ 555,279	\$ 906,649
Additions	-	-
Fair value adjustments	(489,871)	(309,851)
Foreign exchange (gain) loss	(38,952)	(41,519)
Balance, end of period	<u>26,456</u>	<u>555,279</u>
Less: current portion	-	115,734
	<u>\$ 26,456</u>	<u>\$ 439,545</u>



**STRATA-X ENERGY LTD.**  
Notes to the Consolidated Financial Statements  
30 June 2015 and 30 June 2014  
(Expressed in U.S. Dollars)

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10. **Share Capital (continued)**

**Stock Purchase Warrants (continued)**

The fair value of the derivative warrants was determined using the following weighted average assumptions:

	30 June 2015	30 June 2014
Risk-free rate	0.46%	0.30%
Expected life (years)	1.3	1.7
Expected volatility	65.1%	57.3%
Dividend yield	0.0%	0.0%
Forfeiture rate	0.0%	0.0%

Finder warrants

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 CDIs 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 year ended 30 June 2014.

A total of 162,100 finder common share purchase warrants were issued on 26 June 2014 to the joint lead managers for the private placement of CDIs closed on this date, with each finder warrant exercisable at AUD\$0.50 per share to acquire one CDI of the Company until 26 June 2017, at which time the warrants expire. The fair value of the finder warrants of AUD\$19,027 (US\$17,894) is reflected as share issuance costs during the year ended 30 June 2014.

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 2014 are measured using the Black Scholes model with the following weighted average assumptions:

	30 June 2014
Risk-free rate	0.86%
Expected life (years)	3.0
Expected volatility	83.6%
Dividend yield	0.0%
Forfeiture rate	0.0%

**STRATA-X ENERGY LTD.**  
Notes to the Consolidated Financial Statements  
30 June 2015 and 30 June 2014  
(Expressed in U.S. Dollars)

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10. **Share Capital (continued)**

**Stock Purchase Warrants (continued)**

Activity related to common share purchase warrants for the Company for the year ended 30 June 2015 and 2014 is as follows:

	30 June 2015			30 June 2014		
	Number	Weighted Average Exercise Price	Currency	Number	Weighted Average Exercise Price	Currency
Balance, beginning of period	19,092,754	\$ 0.49		20,045,482	\$ 0.49	
Finder warrants - 6 November 2013	-	-		603,172	0.50	AUD
Finder warrants - 26 June 2014	-	-		162,100	0.50	AUD
Expiration of warrants	<u>(7,252,368)</u>	<u>0.51</u>	CDN	<u>(1,718,000)</u>	<u>0.41</u>	CDN
Balance, end of period	<u>11,840,386</u>	<u>\$ 0.48</u>		<u>19,092,754</u>	<u>\$ 0.49</u>	

**STRATA-X ENERGY LTD.**

## Notes to the Consolidated Financial Statements

30 June 2015 and 30 June 2014

(Expressed in U.S. Dollars)

**10. 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 June 30			
	2015		2014	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	6,270,000	\$ 0.36	5,080,000	\$ 0.34
Granted	1,800,000	0.30	1,550,000	0.39
Exercised	-	-	(160,000)	0.10
Expired	<u>(1,500,000)</u>	0.41	<u>(200,000)</u>	0.30
Outstanding, end of period	<u>6,570,000</u>	<u>\$ 0.33</u>	<u>6,270,000</u>	<u>\$ 0.36</u>
Exercisable, end of period	<u>4,695,000</u>	<u>\$ 0.33</u>	<u>5,045,000</u>	<u>\$ 0.35</u>

**STRATA-X ENERGY LTD.**

## Notes to the Consolidated Financial Statements

30 June 2015 and 30 June 2014

(Expressed in U.S. Dollars)

**10. Share Capital (continued)****Stock Option Plan (continued)**

The following table summarizes information on stock options outstanding and exercisable at 30 June 2015:

Exercise Price	Currency	Number Outstanding	Number Exercisable	Weighted Average Contractual Life (years)
\$ 0.30	CDN	4,020,000	2,670,000	5.54
\$ 0.34	CDN	900,000	900,000	7.24
\$ 0.35	CDN	700,000	350,000	3.92
\$ 0.41	CDN	800,000	625,000	3.31
\$ 0.50	AUD	50,000	50,000	1.46
\$ 0.50	CDN	100,000	100,000	2.80
		<u>6,570,000</u>	<u>4,695,000</u>	

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	\$0.35 CDN	\$0.41 CDN	\$0.50 AUD	\$0.50 CDN
Weighted average grant date fair value	\$0.21	\$0.34	\$0.34	\$0.41	\$0.35	\$0.28
Expected dividend rate	0%	0%	0%	0%	0%	0%
Expected volatility	88%	83%	76%	81%	85%	82%
Risk-free interest rate	1.78%	1.81%	1.70%	1.89%	1.42%	0.67%
Expected life of options (years)	7.61	10.00	5.00	5.00	3.00	5.00
Forfeiture rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

The fair value recognized for stock options during the year ended 30 June 2015 is \$173,842 (2014 - \$221,701). 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.

## STRATA-X ENERGY LTD.

### Notes to the Consolidated Financial Statements

30 June 2015 and 30 June 2014

(Expressed in U.S. Dollars)

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#### 11. 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.

#### 12. 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 2015 and 2014 of 151,926,757 and 134,229,256, 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.

#### 13. Details of Cash from Operating Activities

Changes in non-cash working capital items:

	Year ended 30 June	
	2015	2014
Accounts receivable	\$ (134,591)	\$ (37,718)
Prepays and other	20,956	(23,141)
Accounts payable and accrued liabilities	(193,946)	186,365
	<u>\$ (307,581)</u>	<u>\$ 125,506</u>

#### 14. 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	
	2015	2014
Deferred tax assets:		
Property and equipment	\$ 8,692,342	\$ 2,185,731
Decommissioning liabilities	397,473	366,774
Non-capital losses and other	2,954,241	2,257,382
Valuation allowance	(12,044,056)	(4,809,887)
	<u>\$ -</u>	<u>\$ -</u>
Deferred income taxes	<u>\$ -</u>	<u>\$ -</u>

**STRATA-X ENERGY LTD.**

Notes to the Consolidated Financial Statements

30 June 2015 and 30 June 2014

(Expressed in U.S. Dollars)

**14. Income Taxes (continued)**

As at 30 June 2015, the Company has non-capital loss carryforwards of \$8,841,396, which will expire as follows:

	<u>30 June</u>
2028	\$ 19,445
2029	24,082
2030	35,646
2031	232,454
2032	1,643,983
2033	1,913,389
2034	2,187,725
2035	<u>2,784,672</u>
	<u>\$ 8,841,396</u>

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

	Year ended 30 June	
	<u>2015</u>	<u>2014</u>
Loss before income taxes	\$ (18,447,386)	\$ (1,410,055)
Statutory tax rate	<u>25.00%</u>	<u>25.00%</u>
Expected income tax recovery	(4,611,847)	(352,514)
Increase in valuation allowance	7,234,169	479,182
Other	<u>(2,622,322)</u>	<u>(126,668)</u>
Net income tax recovery	<u>\$ -</u>	<u>\$ -</u>

## **STRATA-X ENERGY LTD.**

### Notes to the Consolidated Financial Statements

30 June 2015 and 30 June 2014

(Expressed in U.S. Dollars)

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#### **15. Related Party Transactions**

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 \$5,400. During the year ended 30 June 2015, the Company incurred approximately \$65,000 (2014 - \$78,000) in costs payable to the outside firm for accounting services. These costs are allocated to general and administrative expenses.

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 Canadian consultant calls for monthly payments of CDN \$3,500 and the current contract with the Australian consultant calls for monthly payments of AUD \$2,500. During the year ended 30 June 2015, the Company incurred approximately CDN \$37,200 (2014 – CDN \$32,500) and AUD \$34,000 (2014 – AUD \$28,300) in costs payable to the outside consultants for Canada and Australia, respectively, for corporate services, all of which is included in general and administrative expenses.

The Company entered into note payable agreements with certain directors of the Company in November 2014 as discussed in Note 10.

On 6 April 2015, the Company attempted to farm-out its aggregate 50% working interest in a property located in Texas and was successful in placing approximately a 27% working interest. The Company is entering into a number of farm-out agreements relative to this property including two with officers of the Company, being the Company's Chief Executive Officer and its CFO. The officers will collectively acquire the right to earn an aggregate 19% working interest in the property, with arm's length third parties acquiring the balance available. The farm-outs to the officers were approved by the board of directors and the terms of the agreements are identical. The Company will retain a 5.4% working interest after payout in the project.

Total compensation paid to key management personnel, including the related parties identified above as well as incentive stock compensation related to the granting and vesting of stock options during the period, was approximately \$692,200 (2014 - \$418,900) for the year ended 30 June 2015.

Total salary expenses for employees, directors and management included in general and administrative expenses on the statement of loss for 2015 is \$463,030 (2014 - \$372,890)

## **STRATA-X ENERGY LTD.**

### Notes to the Consolidated Financial Statements

30 June 2015 and 30 June 2014

(Expressed in U.S. Dollars)

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#### **16. 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.

The following provide an analysis of financial instruments that are measured at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are not observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

As at 30 June 2015, the Company had only cash and cash equivalents as "fair value through profit or loss", measured at fair value – Level 1; and derivative warrants measured at fair value – Level 3.

#### **Financial risk management**

The Company's activities are exposed to a variety of financial risks: interest rate risk, market risk, credit risk, liquidity risk, commodity price risk and foreign exchange risk. The Company's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Company's financial results. Risk management is carried out by financial management in conjunction with overall corporate governance.

#### **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, foreign exchange risk and commodity price 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.



**STRATA-X ENERGY LTD.**  
Notes to the Consolidated Financial Statements  
30 June 2015 and 30 June 2014  
(Expressed in U.S. Dollars)

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**16. Financial Instruments (continued)**

**Foreign exchange risk**

Foreign exchange risk is the risk that the fair value or 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.

As at 30 June 2015, \$44,071 of cash and cash equivalents, \$4,342 of accounts receivable, \$93,366 of accounts payable and \$26,456 of derivative warrants are exposed to the Canadian dollar. As at 30 June 2015, \$128,535 of cash and cash equivalents and \$39,331 of accounts payable are exposed to the Australian dollar.

**Commodity price risk**

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. The nature of the Company's operations results in exposure to fluctuations in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar, but also world economic events that dictate the levels of supply and demand. The Company does not use derivative instruments to reduce its exposure to commodity price 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.

As of 30 June 2015, the Company recorded an allowance for doubtful accounts of \$156,090 related to an amount due from a project operator that was greater than 90 days outstanding. The carrying amount of \$94,861 as of 30 June 2015 represents the maximum credit exposure related to accounts receivable.

**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 30 June 2015, the Company had a positive working capital of approximately \$105,700. The Company's financial liabilities excluding derivatives are due within one year.

## **STRATA-X ENERGY LTD.**

### Notes to the Consolidated Financial Statements

30 June 2015 and 30 June 2014

(Expressed in U.S. Dollars)

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#### **17. 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. There were no changes in the Company's approach to capital management during the year.

The Company is not subject to externally imposed capital requirements.

#### **18. Subsequent Event**

On 10 August 2015, the Company completed a private placement of 10,310,250 units. Each unit consists of one CDI and one half of an option. Each CDI is equivalent to and exchangeable for one common share of stock of the Company. Each option is exercisable into one CDI, or common share, at an exercise price of AUD\$0.12 per share. The options expire on 31 January 2017. The offer resulted in proceeds of approximately US\$610,800 (AUD\$824,800). Share issuance costs of approximately AUD\$47,000 were paid in the issuance. Certain directors of the Company and other individuals have committed to subscribing to a subsequent placement totalling AUD\$575,000 on the same terms as the 10 August 2015 placement.

#### **19. Commitment**

The Company has a financial obligation for future lease payments on certain oil and gas properties of \$34,146 through 31 December 2015.