



# STRATA-X

## ENERGY

### Interim Financial Report

For Half Year Ended  
31 December 2015

#### Quarter Highlights

- › In light of the current, very difficult oil price environment, the Company continues to actively investigate joint venture opportunities with other exploration and development companies, both of its own initiative and in response to inquiries from counterparts in the industry. Although these exploratory discussions have yet to coalesce into negotiations that might lead to a material change in the Company's circumstances, Strata-X is of the view that the ongoing interest among potential commercial partners reflects positively on the Company's acreage and future potential. Management intends to continue aggressively pursuing all meaningful, potential partnership/joint venture opportunities as market conditions allow.
- › On 12 November 2015, Strata-X closed a private placement consisting of 7,037,500 shares of the Company raising A\$563,000 at a price of A\$0.08. Directors of the Company subscribed for A\$469,000 of the total Placement.
- › The Company held its Annual General and Extraordinary Meeting of Shareholders on 19 October 2015 where shareholders voted in favour of all resolutions brought before them. More information on the meeting can be found on the Company's website [strata-x.com](http://strata-x.com).

Traded on the Australian Securities Exchange (ASX) under the symbol "SXA" and on the TSX Venture Exchange (TSX.V) under the symbol "SXE"

STRATA-X ENERGY LIMITED  
ARBN - 160 885 343

Disclaimer .....	3
Directors Report.....	4
Corporate Events.....	4
Description of Business .....	7
Organizational Chart.....	8
Company Outlook.....	9
Production Summary.....	11
Illinois Basin Oil Project .....	12
Sleeping Giant Gas Project .....	16
Canning Basin Oil Project.....	17
Other Projects .....	18
USA Tenement / Lease Explanation .....	19
Person Compiling Information .....	21
Independent Auditors Review Report .....	22
Financial Narrative.....	23
Definitions.....	29
Attachment A – Company Financials.....	30

## Stock Exchanges

- TSX Venture Exchange (TSX-V)
- Australian Securities Exchange (ASX)

## Auditor

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## Directors

**Mr. Ron Prefontaine –**  
Chairman of the Board of Directors

**Mr. Tim Hoops –**  
President and Managing Director

**Mr. Dennis Nerland –**  
Non Executive Director

**Mr. Tim Bradley –**  
Non Executive Director

**Mr. Bohdan (Don) Romaniuk –**  
Non Executive Director

**Mr. Greg Hancock –**  
Non Executive Director

## Company Management

**Mr. David Hettich –**  
Chief Financial Officer

## Company Secretaries

Shaun Maskerine – Canada  
Duncan Cornish – Australia

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## Disclaimer

The following discussion and analysis (the "MD&A") for Strata-X Energy Ltd. (hereinafter, "Strata-X Energy", "Company" or "Strata-X") prepared as of 9 February 2016, should be read together with the interim condensed consolidated financial statements for the six months ending 31 December 2015 and related notes appended thereto, which are prepared in accordance with International Financial Reporting Standards. All amounts are stated in United States dollars unless otherwise indicated. Statements in this report that are not historical facts are forward looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements.

Certain information contained in this MD&A constitutes "forward-looking information" within the meaning of applicable Canadian securities legislation. The use of any of the words "anticipate", "continue", "estimate", "intend", "potential", "expect", "may", "will", "project", "proposed", "should", "believe" and similar expressions are intended to identify forward-looking information. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. In addition, this MD&A may contain forward-looking information attributed to third party industry sources. The Company believes that the expectations reflected in such forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this MD&A should not be unduly relied upon. Such information speaks only as of the date of this MD&A or such other date indicated herein. In particular, this MD&A contains forward-looking information pertaining to the following: expectations regarding growth of the Company; the timing and location of drilling or other operational activities; oil and natural gas production estimates and targets; oil and natural gas production levels and sources of their growth; estimates of resource potential of targets, including without limitation, statements regarding BOE/d production capabilities; quantity of reserves and resources relating to the Company and its assets and its value; capital expenditure programs and estimates relating to timing, cost and cash flow generation related to these programs; size of the Company's oil and natural gas reserves and resources; the performance characteristics of the Company's oil and natural gas properties; projections of market prices for oil and natural gas and exploration, development and production costs; supply and demand for oil and natural gas; expectations regarding the ability to raise capital and continually add to reserves through exploration and development and, if applicable, acquisitions; treatment under governmental regulatory regimes and tax laws, and; the use of financing funds by the Company.

With respect to forward-looking information contained in this document, the Company has made assumptions regarding, among other things: timing and ability of the Company to obtain all necessary environmental and regulatory approvals relating to operations; the recoverability of the Company's oil and natural gas reserves and resources; interest rates; exchange rates and the futures prices of oil and natural gas; operating and capital costs; the Company's ability to generate sufficient cash flow from operations and to access capital markets to meet its future obligations; the Company's ability to attract and retain qualified personnel; the ability of the Company to successfully market its oil and natural gas products and the continuing demand for oil and natural gas; and stability of general economic and financial market conditions;

The Company's actual results could differ materially from those anticipated in such forward-looking information as a result of the risk factors set forth below and in the Company's annual information form dated 15 September 2015: volatility in market prices for oil and natural gas; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves and resources; risks and uncertainties associated with the Company's oil and natural gas and development program; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; incorrect assessments of the value of acquisitions and exploration and development programs; adverse claims made in respect of the Company's properties or assets; failure to engage or retain key personnel; geological, technical, drilling and processing problems, including the availability of equipment and access to properties; risks and uncertainties relating to hydraulic fracturing and the enactment of, or changes to, regulations and legislation in relation to hydraulic fracturing; imprecision in estimating capital expenditures and operating expenses; the expiry of leases and the loss of drilling prospects due to the expiry of leases; fluctuations in foreign exchange rates and stock market volatility; general economic and business conditions in North America and elsewhere; environmental risks and hazards; risks inherent in the exploration, development and production of oil and natural gas which may create liabilities to the Company in excess of the Company's insurance coverage, if any; uncertainties associated with changes in legislation including, but not limited to, changes in income tax laws and to oil and natural gas royalty frameworks; ability to obtain regulatory approvals; risks and uncertainties associated with liquidity and capital resources and requirements; and other factors referenced at "Risk Factors" in the Company's annual information form dated 15 September 2015.

These factors are not, and should not be construed as being, exhaustive. In addition, information relating to "reserves" or "resources" is deemed to be forward-looking information, as it involves an implied assessment, based on certain estimates and assumptions that the reserves and resources described can be profitably produced in the future. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. The Company does not undertake any obligation to publicly update or revise any forward-looking information after the date of this MD&A to conform to actual results or to changes in the Company's expectations except as otherwise required by applicable Canadian securities legislation.

On 31 December 2015, Dr. Ira Pasternack, V.P. of Exploration, resigned from his position with the Company.

In light of the current, very difficult oil price environment, the Company continues to actively investigate joint venture opportunities with other exploration and development companies, both of its own initiative and in response to inquiries from counterparts in the industry. Although these exploratory discussions have yet to coalesce into negotiations that might lead to a material change in the Company's circumstances, Strata-X is of the view that the ongoing interest among potential commercial partners reflects positively on the Company's acreage and future potential. Management intends to continue aggressively pursuing all meaningful, potential partnership/joint venture opportunities as market conditions allow.

The Company entered into agreements dated 16 November 2015 to issue shares for debt with certain directors and past directors of the Company. In consideration for settlement of a total combined debt of \$167,500 owing to the directors and past directors by the Company, Strata-X issued to these creditors 2,392,858 common shares of the Company at a deemed price of \$0.07 per share.

On 12 November 2015, Strata-X closed a private placement consisting of 7,037,500 shares of the Company raising A\$563,000 at a price of A\$0.08. Directors of the Company subscribed for A\$469,000 of the total Placement.

On 19 October 2015, shareholders of the Company voted in favour of all resolutions brought before them at the Company's Annual General and Special Meeting held at the Company's headquarters in Denver, Colorado, USA. The Company also announced that it has granted options to purchase up to 5,000,000 common shares of the Company at an exercise price of CAD\$0.12 per share to certain directors. These options are exercisable up to 19 October 2020. The Company further announced a private placement to sophisticated and institutional investors of up to 7,187,500 Common Shares or Chess Depository Interests ("CDIs") in the Company at a price of AUD\$0.08 per Common Share or CDI for gross proceeds of up to AUD\$575,000 ("Placement"). As noted above, the Placement closed on 12 November 2015. Each CDI issued represents one common share of Strata-X and ranks equally with existing CDIs. All CDIs issued pursuant to the Placement are fully tradable and listed on the Australian Securities Exchange.

## Illinois Basin Project

Illinois Basin, USA  
100% of ~30,000 net acres

## Vertical Program

- › The Company is focusing its efforts on developing the “by-passed pay” prospects in its Illinois Basin portfolio. A by-passed pay well is one drilled previously that has certain drilling and electrical log attributes that indicate commercial oil is present. By-passed pay prospects are generally low risk, high margin opportunities for the Company to drill at very low finding costs. Most of these wells were drilled 50 or more years ago when oil prices were less than \$2/bbl with small profit margins. Using rigorous mapping techniques, the Company has identified at least 12 leads and prospects it feels are by-passed pay opportunities at depths less than 4,000 feet.
- › Two near term by-passed pay prospects identified for drilling are the Red Oak Prospect and the Maple Prospect.
- › To increase oil recovery and oil flow rates, the Blue Spruce project will undergo waterflooding of the Aux Vases formation. It is estimated that the waterflood development will extract approximately 40% of the Petroleum Initially In Place (“PIIP” unrisked) resulting in a projected recovery of 1.28 million barrels of oil net to Strata-X. Chapman estimates that once all wells are drilled, total oil production from the Blue Spruce waterflood development project will exceed 500 BOPD.<sup>(1)</sup> Drilling of the second Blue Spruce oil field development well is anticipated to commence in 2016 subject to market conditions.



(1) This information originally appeared in a news release issued by the Company dated 6 April 2015, which is available for review on the Company's website, [www.strata-x.com](http://www.strata-x.com).

## Illinois Basin Project (cont.)

Illinois Basin, USA  
100% of ~30,000 net acres

## Horizontal Program

- › In September 2015, Strata-X drilled the Kuhlig #1 location, the second well in the Company's Lingle Oil Project. The Kuhlig #1 vertical well was a 12 km step-out of the first completed Lingle horizontal well, Burkett 5-34, where peak production rates of 300 barrels of oil per day were achieved. The Kuhlig #1 well encountered the following results-
  - Approximately 16 feet of Lingle formation reservoir as anticipated.
  - Reservoir pressure was 2 times the reservoir pressure of the initial Burkett 5-34 well where the 1800 foot lateral test well reached over 300 BOPD.
  - A drill stem test (DST) recovered oil and gas
- › Since production began, the 5-34HOR well has produced approximately 13,000 barrels of light gravity oil. Gas analysis on the Burkett 5-34 HOR well has shown that the gas contains significant amounts of ethane, propane and butane with a BTU content of 1,650 BTU, more than 60% higher than standard methane. As of January 2016, the Burkett 5-34HOR well is down due to resolvable operating complications which require higher commodity prices to justify proceeding.
- › The production testing results to date demonstrate that the Lingle Formation can be successfully multistage stimulated in a horizontal well to yield significant improvements in oil flow rates compared to historical, vertical well completions. This is the first stimulated horizontal well in the Lingle Formation in the Illinois Basin. Based on our first proof-of-concept experience here, and with the information gained in successfully bringing the Burkett well on production, Strata-X believes significant improvements in future wells may be achieved using more optimal drilling, stimulation and completion methods.



## Description of Business

Strata-X Energy Ltd, together with its wholly-owned subsidiaries, Strata-X, Inc. and Strata-X Australia Pty Ltd, is an independent oil and gas exploration company listed on the TSX Venture Exchange (TSX-V) under the symbol "SXE" and the Australian Securities Exchange (ASX) under the symbol "SXA". Incorporated in British Columbia, Canada, Strata-X Energy has a diversified portfolio of high growth potential petroleum projects. The Company's strategy is to discover and develop oil and gas prospects with relatively low entry costs, a meaningful acreage position and a large working interest so as to provide shareholders the opportunity for substantial growth.

The Company was incorporated as Ozcapital Ventures Inc. on 18 June 2007 in the province of Alberta, Canada under the Alberta Business Corporations Act. Ozcapital Ventures Inc. was a Capital Pool Corporation and its primary business purpose was to identify and evaluate businesses suitable for a qualifying transaction. It completed a qualifying transaction effective 22 September 2011 pursuant to which it changed its name to Strata-X Ltd. and its trading symbol to SXE on the TSX-V. As part of its qualifying transaction, the Company acquired Strata-X, Inc., a company incorporated in Colorado, USA with activities primarily focused on the acquisition, exploration and development of oil and gas properties in the USA and other regions as noted herein.

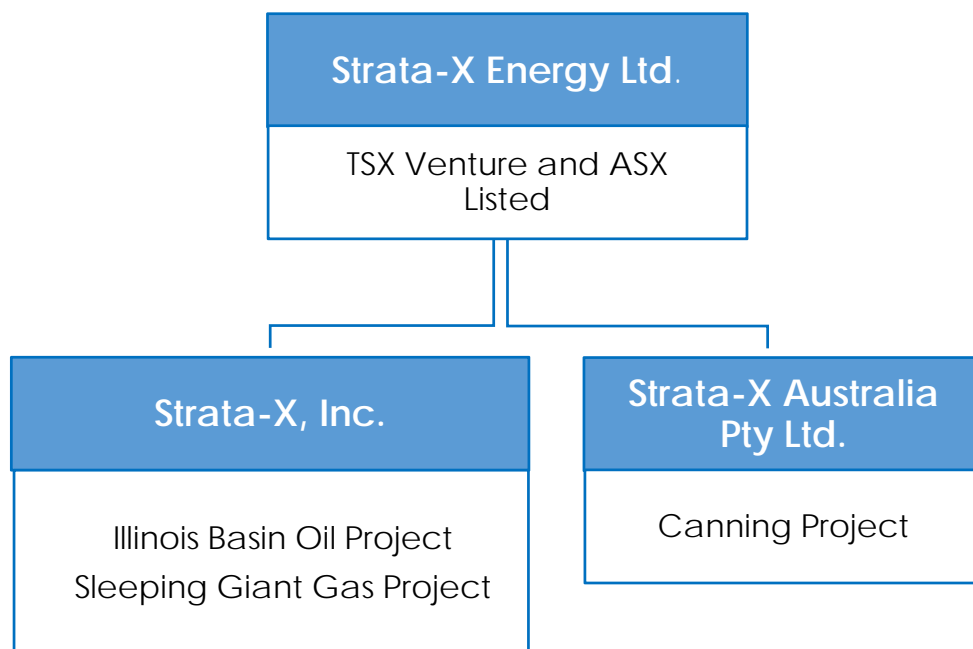
In May 2012, the Company formed a wholly-owned Australian subsidiary, Strata-X Australia Pty. Ltd., for the purpose of acquiring, exploring and developing oil and gas properties in Australia.

On 11 March 2013, the Company began trading on the Australian Securities Exchange (ASX) through the issuance of 42,303,293 CHESS depository interests (CDIs) at the listing price of AUD\$0.30 generating gross proceeds of AUD\$12,690,987.

Following the initial listing of Strata-X's securities on the Australian Securities Exchange on 11 March 2013, Strata-X ceased to be a "venture issuer" as defined in Canada's *National Instrument 51-102 Continuous Disclosure Obligations* and became a non-venture issuer. One of the results of this change in status was an acceleration in the Company's financial reporting timelines. Strata-X is now required to file its annual audited financial statements within 90 days of each fiscal year end and its interim financial statements within 45 days of each quarter end. The Company is also required to file an annual information form at the time it files its annual audited financial statements.

## Organizational Chart

The corporate structure of the Company is as follows:





During the past few years, the Company has been building a portfolio of projects that offers relatively low geologic risk and the potential for significant oil and gas reserves with a view to maximizing shareholder value. The Company has also been targeting large working interests and operatorship, thereby giving it full control of its key projects. This approach has allowed Strata-X to dictate which targets it will pursue, using the technology it considers best suited for the purpose, and according to a schedule that reflects the availability of critical resources on economic terms.

The economic framework of the energy industry has recently undergone a dramatic reversal with falling world oil prices due to a combination of factors including a significant increase in oil production from the United States and other producers creating an oversupply. The ultimate depth and duration of this reversal is still unknown. It may take months or years before supply and demand is rebalanced and a sustainable new equilibrium market price is achieved.

Strata-X is not immune to these market conditions but has chosen projects in areas where drilling and operational costs are low and margins are, on average, higher. The Company has conducted an internal review of its projects and has developed a strategy it believes will best serve the shareholders during these volatile times. Meaningful deployment of capital will be paramount during the period of low oil prices and volatility. The Company intends to focus in the near future on the vertical oil play in the Illinois Basin where acceptable economics can still be attained. Strata-X has three key projects: the Sleeping Giant Gas, Canning Basin, and Illinois Basin Oil Project. The Company has a 100% interest in the Sleeping Giant Gas Project, the Canning Basin Project and the Illinois Oil Project. All of these projects are operated by the Company.

The Company's primary focus to date has been to conduct the exploration appraisal work necessary to demonstrate the production potential and commercial viability of its key USA projects: Sleeping Giant Gas and Illinois Basin Oil Project. Strata-X commenced its appraisal drilling campaign on the Illinois Basin Project (Horizontal) early in the third quarter of 2013 and the Sleeping Giant Gas Project in June 2014. In December 2014, the Company commenced drilling its first vertical well in the Illinois Basin, which is currently undergoing production testing. The Company's strategy is to sufficiently advance its key USA projects through the exploration phase to determine commercial viability.

In April 2014, the Company acquired approximately 22,000 net acres in Wayne County Illinois with two goals in mind. The first was to expand the coverage the Company had over the Lingle Formation and the second was to expose the Company to high margin, low risk opportunities in the shallow Mississippian aged reservoirs found above the New Albany shale. The area was initially developed in the mid-1900s when oil prices were historically low and technology very rustic. Historically, these oil zones have produced in excess of 1.5 billion barrels<sup>(1)</sup> of oil within a 32 kilometer radius of the project. Over the past several decades, the area has seen neither large scale capital deployed nor modern oil field practices despite numerous advances in drilling and completion technologies. The Company views this as an opportunity for a proven mature area to yield new reserves using modern exploration and completion techniques.

During the past year, the Company has investigated thousands of historic wells to develop several areas it considers to be potentially productive. The initial area chosen was on the Clay City Consolidated Oil field, a field that has yielded over 600 million barrels of oil. The Company's evaluation of this area indicates significant bypassed oil pay opportunities exist in direct offsets to historical wells and potential recompletions in bypassed pay intervals. To date, the Company has identified over 60 potential locations in 12 prospects in close proximity to historical production from numerous oil productive zones.

In December 2014, the Company drilled its first vertical well, Blue Spruce #1 on the Blue Spruce project, targeting shallow Illinois oil pay zones. The well encountered several potentially productive zones. In February 2015, the

Company completed the well and placed it on production. Subsequent to placing the well on production, Strata-X's independent engineer, Chapman Petroleum Engineering Ltd (Chapman), confirmed in a report dated 30 June 2015 ("Report"), Proved plus Probable Reserves of 1.282 million barrels of light oil net to the Company. This results in a calculated Blue Spruce Oil Project valuation of USD\$49.976 million before tax Net Present Value (BTNPV disc 10%) (unrisked).<sup>(1)</sup>

The Chapman Report identified 19 oil development locations on the 720 net acres Strata-X has leased over the Blue Spruce Oil Project. To date, Strata-X has received two additional drilling permits on the Blue Spruce project for the Blue Spruce #2 and Blue Spruce #3 wells. Two additional areas that the Company expects have similar geologic characteristics as the Blue Spruce project have been identified for testing, and drilling permits have been received. Plans are to drill 1 or 2 of these wells in calendar 2016, subject to available funds.

In May 2014, Strata-X successfully performed a completion stimulation of the Burkett 5-34HOR well. After the stimulation, the well flowed back approximately 116 barrels of crude oil and approximately 2,100 barrels of completion fluid. The Burkett well reached peak rates of over 300 BOPD and averaged 150 BOPD in November 2014. The ultimate performance of the Lingle oil zone is being masked by the communication with a deeper water zone and low reservoir pressure in the Lingle zone from prior production. Despite these challenges, the Company feels that the Burkett well has advanced the project by demonstrating producible oil and establishing commercial production rates from the Lingle formation. Future wells in the program will be designed with lower energy stimulations to minimize the risks of communication with the deeper reservoir and will be located outside the area of lower reservoir pressure found in the Burkett well.

In September 2015, Strata-X spudded the Kuhlig #1 well, the second well in the Company's Lingle Oil Project in the Illinois Basin. The Kuhlig #1 vertical well is a 12 km step-out of the first completed Lingle horizontal well, Burkett 5-34, and was designed as a low cost, vertical well that will core and pressure test the Lingle to acquire important reservoir data required to design the proposed Raccoon Creek #1 horizontal well. The Kuhlig #1 well encountered approximately 16 feet of reservoir consistent with the mapping and a historic well located approximately 4,000 feet away. A reservoir pressure of 2,100 psi was indicated during a drill stem test of the targeted formation. This pressure is double that of the initial pressure in the Burkett 5-34 lateral well which reached over 300 BOPD. As expected, small amounts of oil and gas were recovered during the drill stem test ("DST") of the Kuhlig #1 well which is interpreted as a tight carbonate Lingle reservoir.

For the quarter ended 31 December 2015, the Company invested \$27,000 in the Illinois Basin Oil Project, principally on lease extensions. Subject to available funds, the Company plans to drill up to three vertical wells for the Company's vertical by-passed pay programme during fiscal year 2016.

The Company has made plans for the plugging and abandonment of the Cinco Saus Creek #1 well subject to mineral owner approval on the Maverick Oil Project as efforts to farm-out the project or bring in a partner on it were not successful.

The Company drilled and cased its first exploratory well on the Sleeping Giant Gas Project, the Rohweder #1-11 well in June/July 2014. It is currently shut-in awaiting completion and testing activities. The Company anticipates that the testing of the Rohweder #1-11 will be delayed until the second half of fiscal 2016. For the quarter ended 31 December 2015, the Company invested \$7,500 in the project, principally to extend leases that would have expired.

In the Canning Basin Project, the Company continues to pursue access agreements with Native Title claimants as a requirement of having the tenement granted.

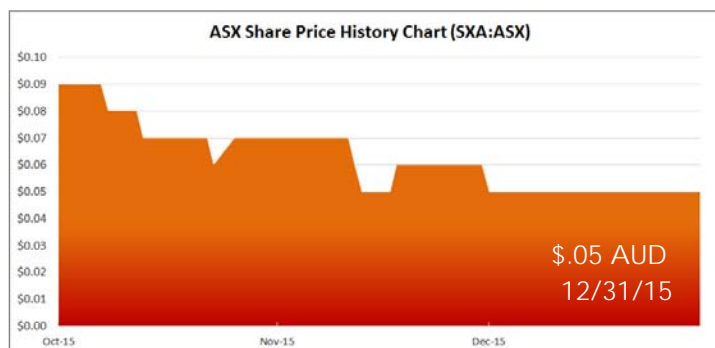
Strata-X is also reviewing its other projects, in which it has 22.5% to 37.5% working interests, in order to determine going-forward activities that meet the Company's growth plans. No decision has been made yet on drilling or continuing any of these other projects. Any drilling on these projects will depend on the Company's ability to target oil reserves that, in the Company's assessment, offer a combination of acceptable risk and sufficiently high potential reward to more than offset such risk. The Company also continues to seek out and review other growth opportunities. Due to the nature of the oil and natural gas industry, budgets are regularly reviewed with respect to the success of the programs and other opportunities which become available to the Company. Accordingly, actual expenditures may differ from these amounts and locations as outlined above. The Company reserves the right to exercise its business judgment to reallocate funds in order for the Company to achieve its overall business objectives.

## Production Summary

(1) Information originally appears in the Company's NI 51-101 Report for FYE 2015 which is available for review at [www.strata-x.com](http://www.strata-x.com)

For the six months ended 31 December 2015, oil production to the Company's net revenue interest was down 73.6% to 2,766 barrels (bbls) compared to 10,513 bbls for the six months ended 31 December 2014. The decrease in oil production is attributed to lower production on the Burkett 5-34HOR due to mechanical issues along with natural production decline. The Burkett 5-34HOR was the only well on production for the Company during the period with the exception of insignificant production from minor vertical wells. For each of the six month periods ended 31 December 2015 and 31 December 2014, no natural gas was sold.

Total revenue for the six months ended 31 December 2015 was \$117,700 compared to \$770,350 for the six months ended 31 December 2014, a decrease of 85%. This decrease is attributed to lower production volumes and a dramatic drop in the price of crude oil. The average daily production for the Company during the six months ended 31 December 2015 was 18 bbls of oil at an average realized sale price of \$35.52 per barrel of oil. Royalties per barrel of oil averaged \$6.08 (17.2%), with production operating expenses for the period of \$46.12 per barrel of oil. After removing non-reoccurring operating expenses and lease expenses not related to active production operative expenses were 23.45 per barrel. The netback received by the Company per barrel of oil sold during the six months ended 31 December 2015 was (\$16.68).

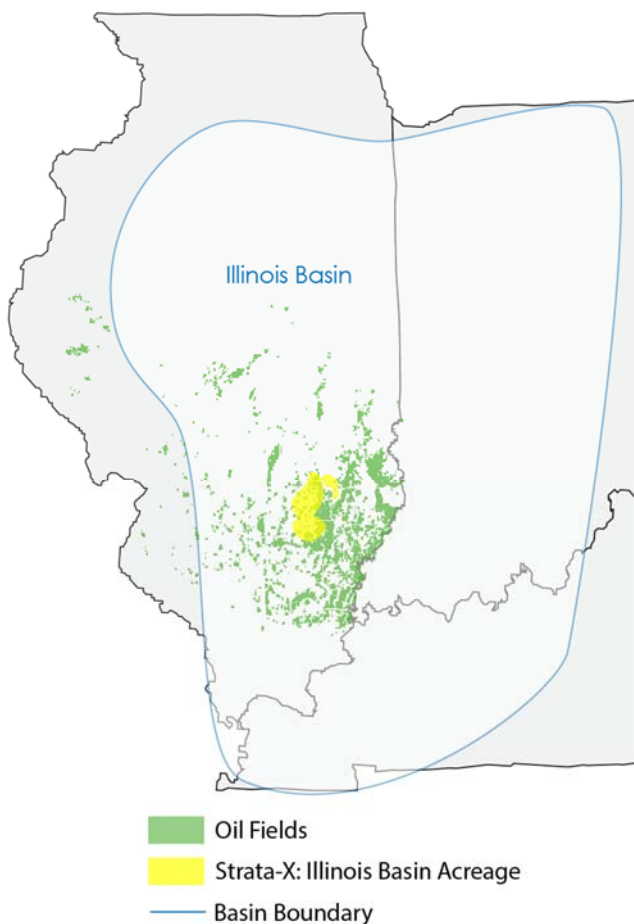


› Illinois Basin, Illinois: 30,000 net acres

The Illinois Basin has historical production of 4 billion barrels of oil and existing infrastructure including oil and gas pipelines with available capacity. Strata-X holds approximately 30,000 net acres in the Illinois Basin which sit on top of and adjacent to several giant oil fields. These oil fields have produced more than 1.5 billion barrels of oil from the same reservoirs Strata-X is targeting.<sup>(2)</sup> Most of this oil was produced when oil prices were less than \$2 per barrel and economical oil flow thresholds were much higher. Most of Illinois' oil

was produced without the benefit of modern drilling and completion techniques. These techniques increase the extent to which reservoirs can now be commercially developed.

To date, the Company has secured 100% of the lease rights to approximately 30,000 net acres in the Illinois Basin. The secured lease rights contain favorable terms and provide an average net revenue interest to the Company of 86%. The Company classifies the Illinois Project into two different opportunities: unconventional horizontal projects in the Devonian aged Lingle and Grand Tower formations such as those being targeted by the Company's two existing horizontal wells and conventional vertical projects targeting the prolific shallow Mississippian formations of the Illinois Basin.



- › In September 2015, Strata-X drilled the Kuhlig #1 location, the second well in the Company's Lingle Oil Project. The Kuhlig #1 vertical well was a 12 km step-out of the first completed Lingle horizontal well, Burkett 5-34, where peak production rates of 300 barrels of oil per day were achieved. The Kuhlig #1 well encountered the following results-
  - Approximately 16 feet of Lingle formation reservoir as anticipated.
  - Reservoir pressure was 2 times the reservoir pressure of the initial Burkett 5-34 well where the 1800 foot lateral test well reached over 300 BOPD.
  - A drill stem test (DST) recovered oil and gas
- › Since production began, the 5-34HOR well has produced approximately 13,000 barrels of light gravity oil. Gas analysis on the Burkett 5-34 HOR well has shown that the gas contains significant amounts of ethane, propane and butane with a BTU content of 1,650 BTU, more than 60% higher than standard methane. As of January 2016, the Burkett 5-34HOR well is down due to resolvable operating complications which require higher commodity prices to justify prosecuting.
- › The production testing results to date demonstrate that the Lingle Formation can be successfully multistage stimulated in a horizontal well to yield significant improvements in oil flow rates compared to historical, vertical well completions. This is the first stimulated horizontal well in the Lingle Formation in the Illinois Basin. Based on our first proof-of-concept experience here, and with the information gained in successfully bringing the Burkett well on production, Strata-X believes significant improvements in future wells may be achieved using more optimal drilling, stimulation and completion methods.

### Company Wells

**-Burkett 5-34HOR** – Lingle Formation

Status: Temporarily Shut-in

Location: Clay County, Illinois

**-Blessing 1-4H** – Grand Tower Formation

(acquired in March 2014)

Status: Shut-in

Location: Wayne County, Illinois

### **Lingle Formation**

In June 2013, Strata-X acquired all necessary regulatory approvals to drill the Burkett 5-34HOR well, which was designed as a horizontal test of the targeted Devonian Lingle formation, and spudded the well on 10 July 2013. It was designed to be drilled in two stages. First, the Company drilled a vertical hole to the top of the target formation and then cored approximately 60 feet of the formation. Next, the

Company plugged back the vertical section of the well and drilled the horizontal leg. The vertical portion of the well reached a total depth of 4,730 feet. The Company successfully cored 59 feet of the target formation and logged the vertical section of the well. Initial core analysis indicated two oil zones in the dolomite reservoir with a total net thickness of 10.5 feet over a 30-foot interval.

On 15 May 2014, the Company successfully completed a 7-stage stimulation of the Burkett 5-34HOR well using approximately 176,000 pounds of proppant. During post completion stimulation production testing, the well flowed back approximately 116 barrels ("bbl") of light-gravity oil along with 2,100 bbls of completion fluid and formation water over a 30-hour test period.

A limited production test began in July 2014. Upon final production facility construction in August 2014, the well was placed into full production testing. After monitoring the well performance, the production facilities were upgraded in October 2014. Thereafter the well "cleaned up" and reached a peak

production rate of 310 bbl/d and 300+Mcf/d. Through December 2015 the Burkett 5-34HOR well has produced approximately 13,000 barrels of light gravity oil.

In furthering the development of the Deeper Lingle Programme in the Illinois Basin, Strata-X has registered as a horizontal operator with the State of Illinois, the first registration of its kind. In September 2015, the Company drilled a vertical 8 mile step-out test to the Burkett 5-34 well called the Kuhlig #1.

In drilling the Kuhlig #1 well, the Company cored 60 feet of the Lingle formation encountering approximately 16 feet of reservoir as anticipated. The reservoir pressure was 2 times the pressure of the initial Burkett 5-34 well where the 1800 foot lateral test well reached over 300 BOPD. A drill stem test (DST) over the targeted formation also recovered oil and gas.

The Kuhlig #1 well was completed as a future water disposal well for the multistage stimulated lateral well planned for early 2016. This lateral well will incorporate a superior completion design to that of the Burkett 5-34 and will use rotary steering designed to reduce the drilling costs.

### **Grand Tower Formation**

The Company completed an acquisition in March 2014 consisting of approximately 23,595 net acres of production and exploration assets in the Illinois Basin adjacent to its existing assets. Included in the acquisition was the existing, then shut-in, horizontal well called the Blessing 1-4H. This well, drilled by the prior operator in mid 2013, targeted the Grand Tower Formation located directly beneath the Lingle Formation (which is the target interval for the Vail Oil Project). Following a stimulation of only 25% of the horizontal portion of the wellbore, the previous operator was able to achieve production rates as high as 100 bopd with high water cuts. The Company does not feel that the previous operator has adequately tested the Grand Tower formation. The Blessing 1-4H well was put on production in June 2014 and then subsequently shut-in while the Company reviews its options to stimulate the remaining 75% of the lateral portion of the wellbore.

- › Confirmed 2P reserves of 1.282 million barrels net to Strata-X on the Blue Spruce project covering 720 net acres to the Company. <sup>(2)</sup>
- › 19 wells planned on the Blue Spruce project. Company currently holds addition drilling permits on the project for the Blue Spruce #1 and #2.
- › Modern extraction techniques provide new tools to unlock bypassed oil potential.
- › Strata-X remains committed to its strategy of delivering an early mover advantage for shareholders.

In December 2014, the Company drilled the Blue Spruce # 1, its first well in a multi-well drilling program in the Illinois Basin. The well, which reached a total depth of 3,280 feet, encountered multiple oil and gas shows in the targeted shallow Mississippian formations. The Company elected to case the well with 5.5 inch casing before releasing the drilling rig.

In January 2015, the Company mobilized completion equipment to the location of the Blue Spruce #1 to test the productivity of the well. After successfully testing two oil zones in the Blue Spruce #1 well on the Illinois Shallow Oil Project, the well was set up for production in the Aux Vases formation. The testing consisted of individually perforating and swabbing 3 of the 4 interpreted oil zones starting with the bottom zone and continuing to the top zone. The Company has determined that 2 of the 3 tested zones, the Middle McClosky and Aux Vases, the main targets of the well, are likely to be commercially productive. The successful stimulation of the Aux Vases formation resulted in 10 barrels of fluid entry per hour with a 25% cut of light oil. In February 2015 the Blue Spruce #1 was placed on production.

In a report dated 30 June 2015, Strata-X's independent engineer, Chapman Petroleum Engineering Ltd (Chapman), confirmed Proved plus Probable Reserves are 1.28 million barrels of light oil net to the Company on the Blue Spruce project. Strata-X currently has the rights to 720 net acres of the Blue Spruce project where it has identified 19 oil development locations. Chapman calculated a before tax Net Present Value

(BTNPV disc 10%) of the Blue Spruce project to the Company of USD\$49.976 million (After Tax NPV of USD\$38.3 million, unrisksed). <sup>(2)</sup>

To increase oil recovery and oil flow rates, the Blue Spruce project will require water pressure maintenance involving waterflooding of the Aux Vases formation. It is estimated that the waterflood development will extract approximately 40% of the Petroleum Initially In Place ("PIIP" unrisksed) resulting in a projected recovery of 1.282 million barrels of oil net to Strata-X. Chapman estimates that once all wells are drilled, total oil production from the Blue Spruce waterflood development project will exceed 500 barrels of oil per day net to the Company.<sup>(2)</sup> Drilling of the second well on the Blue Spruce project is anticipated to commence in the second half of calendar 2016, subject to available funds. <sup>(2)</sup>

Past water flooding projects in the Aux Vases formation in areas immediately adjacent to the Company's Blue Spruce Project have been successful. Previous yielded recoveries have been in excess of the forecasted 40% rate for Blue Spruce.<sup>(2)</sup> Following waterflooding, tertiary recovery methods may also be considered by the Company which could further increase the recovery of the PIIP and oil reserves from the Blue Spruce oil field.

In reviewing the Company's existing lease base in the area, 8 additional analog projects have thus far been interpreted with similar bypassed oil pay in historical wells. The Company is taking steps to ready these projects for drilling later this year.

1. Illinois State Geological Survey, Illinois Oil and Gas Database, accessed 10/1/2014, [www.isgs.illinois.edu](http://www.isgs.illinois.edu).

2. Information originally presented in a news release dated 30 June 2015 which is available for review on the Company's website [www.strata-x.com](http://www.strata-x.com)

- › Williston Basin, North Dakota
- › 100% of 53,000 net Acres

The Company has acquired the rights to approximately 53,000 net acres in the Williston Basin in North Dakota having multiple prospective structures for natural gas. The targets are shallow gas accumulations in reservoirs at depths generally under 2,000 feet.

The Sleeping Giant Project is located on relatively flat agricultural lands with existing roads and infrastructure. Two interstate natural gas pipelines transect the prospect providing a sales avenue for developed natural gas. Oil and natural gas field services are readily available in Bismarck and Williston, North Dakota.

The Niobrara Formation is a significant petroleum system in the USA and has produced over 1 TCF of natural gas from shallow accumulations. There has been relatively little drilling in the Sleeping Giant prospect area. The limited drilling there has been located off structure from these gas prospects with prior wells predominantly targeting deeper Cretaceous or Paleozoic targets. The Niobrara Formation in this area has been overlooked despite

gas shows and small flares being reported. In the mid 2000's, four wells were drilled in this part of North Dakota to test shallow gas shows. None of them were completed as all were drilled off-structure for the Niobrara gas play.

In December 2013, the Company received permits for 4 drilling locations from the North Dakota Industrial Commission. On 20 June 2014, Strata-X spudded the Rohweder #1-11 well, the first of its four permitted locations and the Company's first vertical appraisal well in the Sleeping Giant Gas Project.

The Rohweder #1-11 well was drilled to a total depth of 1,450 feet. Gas shows were encountered immediately after penetrating the regional hydrocarbon seal. In total, gas shows peaked at approximately 300 units over a background of 25 units. Oil fluorescence and oil cut were also observed in portions of the targeted Niobrara formation. After casing, the well was shut-in to allow the Company time to design an optimal completion stimulation method utilizing data obtained during the drilling of the well.

The Company is currently exploring options with third party companies to farm out a portion of the Sleeping Giant Gas Project including the completion of the Rohweder #1-11 well and is investigating a potential title defect to the Rohweder lease which results are not yet available, that could effect and restrict the Company's ability to produce the well.





- › Laurel Shale, Western Australia
- › 100% of 1.4 million acres

In March 2012, the Company was conditionally awarded 100% of a permit to explore approximately 1.4 million acres in the Canning Basin in northwest Australia. The Permit, L 11-3, in the rapidly emerging Laurel shale petroleum province, was won in a

competitive acreage release round based on a work program. Granting of this permit is conditional upon complying with the Native Title Act of 1993. The Company is continuing its negotiation process towards securing access agreements with the Native Title claimants.

The Company believes the L 11-3 onshore Canning Basin block is prospective for both conventional and unconventional petroleum resources within the Carboniferous Laurel Formation where discoveries have been made by Buru Energy along similar geologic trends in the basin.

### Vallecitos Oil Project

San Benito County, California, USA

The Company has a 22.5% working interest and a 19.5% net revenue interest in approximately 21,000 gross acres of leasehold in the Vallecitos area in California and, as of 30 September 2015, a 22.5% working interest in the producing 120 acre F&I Pool.

On 15 October 2015, Strata-X sold its working interest in the producing 120 acre F&I pool to the operator of the project for cash consideration of USD\$200,000 and the settlement of \$63,000 of the net amounts owed to the purchaser, for a total gain on the sale of \$63,000. The terms of the sale were industry standard. Strata-X still retains a 22.5% working interest in 21,000 gross acres on the exploration Vallecitos Project.

Within the exploration Vallecitos Oil Project, multiple leads and prospects have been interpreted using a 24 square mile 3D seismic survey acquired in 2009. The 3D seismic was recently reprocessed incorporating VSP data obtained during the drilling of a prior well on the project to help high-grade the leads and prospects that the Company is considering developing.

In December 2012, the partners of the Vallecitos project were the high bidders for multiple Bureau of Land Management (BLM) leases covering 10,373 gross acres, with 2,334 acres net to the Company's interest. The leases were subsequently named in a lawsuit between an environmental activist group and the BLM delaying the vesting of the leases to the partners until the case is resolved. Neither the partners of the project nor the Company have any liability associated with the third party suit.

### Eagle Project

Kings County, California, USA

The Company now has a 23.9% working interest in 5,160 gross acres of land in the Eagle Project in the San Joaquin Valley area in California and is the operator of the project. One previously drilled well in the Eagle Project area encountered good oil shows in the Eocene Age Gatchell sands that tested up to 192 barrels of light oil and 427 Mcf of gas per day. Although light oil was recovered, the well was considered to be non-commercial at the time due primarily to formation damage by heavy drilling mud and cement squeezing. Subsequent activity on the prospect was met with mechanical issues despite continuing indications of oil shows in the primary target.

## USA Tenement / Lease Explanation

Project	Location	% Interest	Net Acres
Illinois Oil	Illinois, USA	100%	30,000
Canning <sup>(1)</sup>	Western Australia	100%	1,438,120
Sleeping Giant	North Dakota, USA	100%	53,000
Vallecitos	California, USA	22.5%	4,528
Eagle	California, USA	23.9%	770
<b>Total</b>			<b>1,526,418</b>

(1) Exploration permit acres vesting subject to completing and complying with the Native Title Act of 1993.

The ownership of in-situ hydrocarbons in the United States differs from almost all other countries in that the owners are typically private individuals or private entities. The vast majority of the exploration tenements or leases held by the Company in the USA are with private parties. Currently, the Company holds rights to over 800 leases in the USA. These leases differ from each other in numerous ways including the size of each parcel of land, financial terms, royalties and contract duration. Differences in expiration dates allow for a gradual release or roll-over or, if renewed, continuation, of exploration rights. The tenement or leasehold position for each project, including its relative location, reflects the position of the Company as of the date of this report. If the disposal of a Company position was material or represented a change from a prior reporting period then this aggregate change would be reflected in the total position listed by the Company.

Generally, petroleum rights in the USA are purchased from the owner as leases on negotiated terms which may include cash payments up front, royalties and rental arrangements. Competition for leases can become very heated, particularly in highly sought-after productive areas. Strata-X's goal has been and continues to be to minimize lease purchase costs while maximizing shareholder growth potential, by striving to be the first or early mover on areas or projects. To accomplish this, the Company carries out its own in-house geological mapping and analysis to high-grade areas or projects for acquisition. Further, the Company will not be making public detailed geological maps or detailed lease maps as this may attract competitors, especially much larger and better financed rivals, potentially increasing the Company's lease purchase costs and diminishing its ability to consolidate significant land positions on attractive terms.

During the quarter ended 31 December 2015, Strata-X reduced the tenement acres it held on the Illinois Oil and Sleeping Giant Gas Projects. On the Sleeping Giant Gas Project, non-core leases were allowed to expire reducing the Company's net acreage position from 65,000 to 53,000, a decrease of ~12,000 net acres to Strata-X's interest. The Company is currently exploring options with third party companies to farm out a portion of the Sleeping Giant Gas Project including the completion of the Rohweder #1-11 well and is investigating a potential title defect to the Rohweder lease which results are not yet available, that could effect and restrict the Company's ability to produce the well.

On the Illinois Oil Project, non-core leases were allowed to expire reducing the Company's acreage position to ~30,000 acres from ~35,000, a decrease of 5,000 acres net to the Company's interest. Due to the change in the economic environment, the Company has decided to let a significant amount of exploration acreage it currently has under lease expire. The Company believes that most of the acreage can be re-leased at better terms in the future. Subject to available funds, the Company will pursue extending or acquiring new leases in its core area in the Illinois Basin vertical oil play. While this action may result in a partial write-down of the Company's asset base, Strata-X feels this is the most prudent course of action in light of significantly lower oil prices.

On 30 November 2015, the leases covering the Maverick Oil Project expired terminating the Company's interest in the Project. The Company, per the terms of its exploration lease with the mineral owner, is planning to plug and abandon the Cinco Saus Creek #1 well. In the Company's fiscal year end 2015 audited financials, the Maverick Oil Project was impaired to the full amount of its carried value.

On 15 October 2015, Strata-X sold its working interest in the producing 120 acre F&I pool to the operator of the project for cash consideration of USD\$200,000. The terms of the sale were industry standard. Strata-X does retain a 22.5% working interest in the 21,000 gross acre Vallecitos Oil Project.

This calendar year, the Company expects further lease reductions of approximately 4,000 net acres on the Illinois Project and 35,000 net acres on the Sleeping Giant Gas Project. These reductions will result in a write-down of the Company's asset base.



## Person Compiling Information

Technical information contained herein is based on the information compiled by the Company's President and Managing Director, Tim Hoops. Mr. Hoops has over 33 years of experience in the petroleum industry and is a graduate of the Colorado School of Mines with a degree in Geological Engineering. Mr. Hoops consents to the inclusion in this document of the matters based on the information, in the form and context in which it appears. Signed in accordance with a resolution of the Directors

On behalf of the Directors.

**Timothy Hoops**  
**President and Managing Director**  
**As at 12 February 2016**

# Independent Auditors Review Report



February 9, 2016

To the Audit Committee of the Board of Directors of  
Strata-X Energy Ltd.

Collins Barrow Calgary LLP  
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777 – 8<sup>th</sup> Avenue S.W.  
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In accordance with our engagement letter dated December 8, 2015, we have performed an interim review of the interim condensed consolidated financial statements of Strata-X Energy Ltd. which comprise the interim condensed consolidated statement of financial position as at December 31, 2015, and the interim condensed consolidated statements of loss and comprehensive loss, interim condensed consolidated statements of changes in shareholders' equity, and interim condensed consolidated statements of cash flows for the six-month period ended December 31, 2015. These interim condensed consolidated financial statements are the responsibility of the Company's management.

We performed our interim review in accordance with Canadian generally accepted standards for a review of interim condensed consolidated financial statements by an entity's auditor.

An interim review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements. Accordingly, we do not express such an opinion. An interim review does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit.

Based on our interim review, we are not aware of any material modification that needs to be made for these interim condensed consolidated financial statements to be in accordance with International Financial Reporting Standards applicable to the preparation of interim financial statements, including International Accounting Standard 34, "Interim Financial Reporting".

The interim condensed consolidated statement of financial position of Strata-X Energy Ltd. as at June 30, 2015 and the related interim condensed consolidated statement of comprehensive loss, interim condensed consolidated statement of changes in equity, and interim condensed consolidated statement of cash flows for the year then ended (not presented herein), were audited by another auditor. In their report dated September 14, 2015, they expressed an unmodified audit opinion on those interim condensed consolidated financial statements except as to notes 6 and 7 which have been amended and restated as at February 9, 2016. In our opinion, the information set forth in the accompanying interim condensed consolidated statement of financial position as at December 31, 2015 is fairly stated, in all material respects, in relation to the financial statements from which it has been derived.

This report is solely for the use of the Audit Committee of the Board of Directors of Strata-X Energy Ltd. to assist it in discharging its regulatory obligation to review these interim condensed consolidated financial statements, and should not be used for any other purpose. Any use that a third party makes of this report, or any reliance or decisions made based on it, are the responsibility of such third party. We accept no responsibility for loss or damages, if any, suffered by any third party as a result of decisions made or actions taken based on this report.

*Collins Barrow Calgary LLP*

**CHARTERED ACCOUNTANTS**

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## Summary of Annual Results

Historical annual information is as follows:

	30 June 2015 (IFRS) (Restated)	30 June 2014 (IFRS)	30 June 2013 (IFRS)
Revenue, net of royalties	\$953,999	\$200,080	\$128,818
Expenses	\$(2,274,809)	\$(1,849,284)	\$(2,432,363)
Other income and net finance expense	\$449,546	\$239,149	\$964,999
Impairment of oil and gas properties	\$(12,373,129)	\$-	\$(40,564)
Net Loss	\$(13,244,393)	\$(1,410,055)	\$(1,347,314)
Basic & diluted net loss per share	\$(0.09)	\$(0.01)	\$(0.02)
Assets	\$15,541,506	\$28,608,951	\$21,714,394
Liabilities	\$2,045,699	\$3,525,930	\$2,399,531

Historical quarterly information is as follows:

	31 Dec 2015	30 Sep 2015 (Restated)	30 June 2015 (Restated)	31 Mar 2015	31 Dec 2014	30 Sep 2014	30 June 2014	31 Mar 2014
Total Assets	\$15,229,228	\$16,026,750	\$15,541,506	\$27,314,116	\$27,684,369	\$27,018,230	\$28,607,626	\$26,186,585
Revenue, net of Royalties	\$31,251	\$86,453	\$82,184	\$101,464	\$507,041	\$263,310	\$114,483	\$39,394
Expenses	\$(263,628)	\$(465,709)	\$(567,694)	\$(553,834)	\$(681,516)	\$(471,765)	\$(510,476)	\$(386,662)
Other Income and net finance expense	\$94,545	\$(34,378)	\$40,325	\$23,126	\$-	\$-	\$-	\$-
Impairment of oil and gas properties	\$(677,000)	\$-	\$(11,494,984)	\$-	\$(697,601)	\$(180,544)	\$-	\$-
Gain on valuation of derivative liabilities	\$53,956	\$27,784	\$14,275	\$59,085	\$49,161	\$367,350	\$185,836	\$89,689
Net Loss	\$(760,876)	\$(385,850)	\$(11,966,901)	\$(387,503)	\$(831,292)	\$(58,697)	\$(172,396)	\$(367,102)
Other Comprehensive Income (Loss):								
Currency translation adjustment	\$5,475	\$(347)	\$11,610	\$5,200	\$44,670	\$12,082	\$61,196	\$11,984
Comprehensive Loss	\$(755,401)	\$(386,197)	\$(11,955,290)	\$(382,304)	\$(786,622)	\$(46,615)	\$(111,200)	\$(355,118)
Basic & diluted net income (loss) per share	\$(0.00)	\$(0.00)	\$(0.08)	\$(0.00)	\$(0.01)	\$(0.00)	\$(0.00)	\$(0.00)



## Results of Operations

As noted above, total revenue for the quarter ended 31 December 2015 was \$31,251 compared to \$507,041 for the quarter ended 31 December 2014. The decrease is due to a decrease in oil production attributable to lower production on the Burkett 5-34HOR due to mechanical issues along with natural production decline. A significantly lower price for oil also contributed to the reduction in revenue.

Production and exploration expenses for the quarter ended 31 December 2015 were \$81,887 compared to \$120,065 for the same quarter last year, consistent with the decline in oil and gas revenues over the same period.

General and administrative expenses for the quarter ended 31 December 2015 decreased by \$418,862 to \$111,128 from \$529,990 for the same quarter last year primarily due to a decrease in costs related to private placements of stock in 2015 and reductions in Company salaries for officers and employees.

The monetary assets and liabilities of Strata-X Energy Ltd. and Strata-X Australia Pty. Ltd. are denominated in Canadian and Australian dollars, respectively. The translation of these assets and liabilities at the reporting date into United States dollars, which is the functional currency of the Company, resulted in a currency translation gain of \$5,475 for the quarter ended 31 December 2015. This gain is included as a component of other comprehensive income for the quarter. The currency translation rate from Canadian and Australian dollars to United States dollars was taken from the close of currency trading on 31 December 2015.

## Impairment

As at 31 December 2015 the Company determined there to be indicators of impairment regarding exploration and evaluation assets, based on the prolonged decline of crude oil prices and management's reallocations of future capital spending. During the six months ended 31 December 2015, the Company recorded an impairment loss of \$126,000 related to properties located in California and \$279,000 related to properties in Illinois as management determined that the carrying values of these projects exceeded their recoverable amount.

Subsequent to 30 June 2015, management determined that certain assets originally recorded as exploration and evaluation assets at 30 June 2015 related to properties in Illinois and California with carrying values of \$4,909,683 and \$464,317, respectively, had reached technical feasibility as proved and probable reserves were assigned by the Company's external reserve evaluator at 30 June 2015. Consequently, the carrying value of exploration and evaluation assets has been reduced by \$5,374,000 with a corresponding increase to property and equipment.

## Liquidity and Capital Resources

The interim condensed consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS), 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 \$(760,876) for the quarter ended 31 December 2015.

The Company continues to focus on minimal capital activities, reducing operating and general and administrative costs and enhancing operational efficiencies to preserve the Company's financial health and sustainability in a low commodity price environment. The Company cannot provide any assurance that sufficient cash flows will be generated from operating activities or proceeds from other activities will be able to provide adequate working capital to sustain operations for the long-term.

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 depends 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. As discussed in the notes to the consolidated financial statements, in March 2013 the Company completed its initial public offering of CDIs on the Australian Securities Exchange, raising net proceeds of approximately \$11,302,000, and completed private placements in November 2013, June 2014, December 2014, August 2015 and November 2015 resulting in proceeds of

approximately \$8,833,000 in total. As a result of these offerings, the Company had a working capital surplus of approximately \$489,000 as at 31 December 2015.

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.

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at 31 December 2015 and as at the date hereof, a total of 176,325,585 common shares and CDIs were issued and outstanding with a resulting share capital of \$35,968,547.

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

### **Transactions with 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 \$5,400. During the six months ended 31 December 2015, the Company incurred approximately \$31,800 (2014 - \$32,500) in costs with the outside firm for accounting services. These costs are allocated to general and administrative expenses and exploration and evaluation assets.

On 16 November 2015, the Company issued common shares to certain directors of the Company in consideration of settlement of debt.

### **Summary of Significant Accounting Policies**

The condensed interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as were used in preparing the Company’s 30 June 2015 annual financial statements. The Company continues to assess the impact of adopting the pronouncements of the IASB as described in the Company’s 30 June 2015 annual financial statements.

### **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. There have been no changes to these policies during the period ended 31 December 2015.

#### **Market risk**

The Company’s exposure to financial market risk is the risk that the fair value of 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. There have been no significant changes to the Company’s market risks other than as noted herein.

#### **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company’s ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economy. The Company continues to monitor its actual and forecast cash flows to review whether there are adequate reserves to meet its financial obligations on an ongoing basis. As at 31 December 2015, the Company had a positive working capital of approximately \$489,000. Continuing weak commodity prices experienced during 2015 have negatively impacted earnings and operating cash flow for the period.

The Company continues to focus on minimal capital activities, reducing operating and general and administrative costs and enhancing operational efficiencies to preserve the Company's financial health and sustainability in a low commodity price environment. The Company cannot provide any assurance that sufficient cash flows will be generated from operating activities or that proceeds from other activities will be able to provide adequate working capital to sustain operations for the long-term.

### 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 2015, the Company had a positive working capital of approximately \$489,000. The Company's contractual obligations as of 31 December 2015 consisted of accounts payable and accrued liabilities of approximately \$551,600 and deposits of approximately \$23,200.

### Critical Accounting 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 judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected. There have been no changes to the application of the critical accounting estimates since the year ending 30 June 2015.

As at 31 December 2015 the Company determined there to be indicators of impairment regarding exploration and evaluation assets, based on the prolonged decline of crude oil prices and management's reallocations of future capital spending. During the six months ended 31 December 2015, the Company recorded an impairment loss of \$126,000 related to properties located in California and \$279,000 related to properties in Illinois as management determined that the carrying values of these projects exceeded their recoverable amount.

Subsequent to 30 June 2015, management determined that certain assets originally recorded as exploration and evaluation assets at 30 June 2015 related to properties in Illinois and California with carrying values of \$4,909,683 and \$464,317, respectively, had reached technical feasibility as proved and probable reserves were assigned by the Company's external reserve evaluator at 30 June 2015. Consequently, the carrying value of exploration and evaluation assets has been reduced by \$5,374,000 with a corresponding increase to property and equipment.

### Control Certification

#### Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure information required to be disclosed by the Company is accumulated and communicated to management to allow for timely decisions regarding required disclosures. The Company carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures as of 30 June 2015. The evaluation was carried out under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation of the effectiveness of the Company's disclosure controls and procedures as at year-end, that the Company's disclosure controls and procedures are ineffective to ensure that information required to be disclosed by the Company is (i) recorded, processed, summarized and reported within the time periods specified by Canadian securities law and (ii) accumulated and communicated to the Company's Management, including its Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. It should be noted that while the Company's Chief Executive Officer and the Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect

that the disclosure controls and procedures will necessarily prevent all error and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met.

### **Material Weakness**

A material weakness is a deficiency, or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statement will not be prevented or detected on a timely basis. The Company identified the following ongoing material weakness that applies to both disclosure controls and procedures and internal control over financial reporting;

Due to the limited size of the Company, the Company does not have sufficient resources for reviewing the financial statements and cannot maintain adequate segregation of duties as is necessary to absolutely ensure complete and accurate financial reporting. Specifically, the Company's Chief Financial Officer is responsible for preparing, authorizing and reviewing information that is integral to the preparation of financial reports and is also responsible for day-to-day accounting. He is also responsible for preparing and reviewing the resulting financial reports. This weakness has the potential to result in material misstatement in the Company's consolidated financial statements that would not be prevented or detected and, as such, has been determined to be a material weakness in internal controls over financial reporting, which also affects the Company's disclosure controls and procedures.

As of the date of this report, Management has not yet developed a plan to remediate the material weakness. Management has concluded that, taking into account the present state of the Company's development, the Company does not have sufficient size and scale to warrant, and cannot reasonably justify, the expenditure for curing the material weakness given Management's view of the perceived risk in the material weakness.

### **Internal Controls over Financial Reporting**

The Company's Chief Executive Officer and the Chief Financial Officer have designed, or caused to be designed under their supervision, a system of internal controls over financial reporting to provide reasonable assurances regarding the reliability of the Company's financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. As at the financial year-end of the Company, such officers have evaluated, or caused to be evaluated under their supervision, the Company's internal controls over financial reporting and have determined that such internal control system is ineffective for the foregoing purposes. The Company is required to disclose herein any change in its internal controls over financial reporting during the period that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No change in the Company's internal controls over financial reporting was identified during such period that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. It should be noted that a control system, including the Company's disclosure and internal control procedures, no matter how well conceived can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors and fraud.

### **Future Changes in Accounting Policies**

Management is currently assessing the potential impact of the adoption of these new standards on the Company's consolidated financial statements as discussed in the Company's annual financial statements at 30 June 2015.

### **Other Company Information**

Additional disclosure information for Strata-X Energy Ltd. can be located in its latest Annual Management Discussion and Analysis and Audited Financials for the year ended 30 June 2015. Both documents are available on SEDAR and the Company's website.

Tim Hoops

CEO, President and Managing Director

David Hettich

Chief Financial Officer

In this document, the abbreviations set forth below have the following meanings:

### **Oil and Natural Gas**

Bbl	barrel
Bbls	barrels
Mbbls	thousand barrels
MMbbls	million barrels
Mcf	thousand standard cubic feet
MMcf	million standard cubic feet
Bcf	billion cubic feet
TCF	trillion cubic feet

### **Other**

Hydrocarbon Index- measure of the hydrogen richness of the source rock, and when the kerogen type is known it can be used to estimate the thermal maturity of the rock.

OOIP – Original Oil in Place.

Permeability – the ability or measurement of a rock’s ability to transmit fluids.

Porosity – percentage of pore volume or void space or that volume within rock that can contain fluids.

Reservoir Rock – refers to a subsurface pool of hydrocarbons contained in porous or fractured rock formations.

Rock Eval – is used to identify the type and maturity of organic matter and to detect petroleum potential in sediments.

Source Rock - refers to carbon bearing rocks from which hydrocarbons have been generated or are capable of being generated.

Tmax -highest temperature incurred by a Source Rock, generally higher temperatures equates to larger hydrocarbon generation.

Total Organic Carbon (TOC) – amount of carbon in a geological formation, mainly Source Rocks.



Attachment A – Company Financials



**STRATA-X ENERGY LTD.**  
(Unaudited)  
Interim Condensed Consolidated Financial Statements  
For the Six Months Ended 31 December 2015  
(Expressed in U.S. Dollars)

**STRATA-X ENERGY LTD.**

(Unaudited)

## Interim Condensed Consolidated Statement of Financial Position

(Expressed in U.S. Dollars)

	<b>31 December 2015</b>	30 June 2015 (Restated - notes 5 and 6)
<b>ASSETS:</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,000,664	\$ 957,410
Accounts receivable	47,163	94,861
Prepays, deposits and other	15,980	15,980
<b>Total current assets</b>	<b>1,063,807</b>	<b>1,068,251</b>
<b>Other assets</b>	<b>244,343</b>	<b>244,343</b>
<b>Exploration and evaluation assets (Note 5)</b>	<b>1,550,352</b>	<b>1,907,780</b>
<b>Property and equipment (Note 6)</b>	<b>12,370,726</b>	<b>12,321,132</b>
<b>Total assets</b>	<b>\$ 15,229,228</b>	<b>\$ 15,541,506</b>
<b>LIABILITIES:</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 356,831	\$ 443,428
Deposits	23,236	117,070
Amounts due to related parties	194,796	402,014
<b>Total current liabilities</b>	<b>574,863</b>	<b>962,512</b>
<b>Derivative warrants (Note 8)</b>	<b>18,685</b>	<b>26,456</b>
<b>Accrued liabilities</b>	<b>63,048</b>	<b>63,048</b>
<b>Decommissioning provisions (Note 7)</b>	<b>1,121,000</b>	<b>993,683</b>
<b>Total liabilities</b>	<b>1,777,596</b>	<b>2,045,699</b>
<b>SHAREHOLDERS' EQUITY:</b>		
<b>Share capital (Note 8)</b>	<b>35,968,547</b>	<b>34,934,188</b>
<b>Share based compensation reserve (Note 8)</b>	<b>1,389,224</b>	<b>1,326,160</b>
<b>Warrant reserve (Note 8)</b>	<b>1,009,486</b>	<b>1,009,486</b>
<b>Contributed surplus</b>	<b>22,066,879</b>	<b>22,066,879</b>
<b>Accumulated other comprehensive income</b>	<b>(816,880)</b>	<b>(822,008)</b>
<b>Deficit</b>	<b>(46,165,624)</b>	<b>(45,018,898)</b>
<b>Total shareholders' equity</b>	<b>13,451,632</b>	<b>13,495,807</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 15,229,228</b>	<b>\$ 15,541,506</b>

Nature of Business and Going Concern (Note 1)

Approved on behalf of the Board

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Director  
See accompanying notes

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Director



**STRATA-X ENERGY LTD.**

(Unaudited)

## Interim Condensed Consolidated Statement of Loss and Comprehensive Loss

(Expressed in U.S. Dollars)

	Three months ended 31 December		Six months ended 31 December	
	2015	2014	2015	2014
<b>Oil and gas revenue, net of royalties</b>	\$ 31,251	\$ 507,041	\$ 117,704	\$ 770,351
<b>Expenses</b>				
Production and operating	80,103	120,065	151,063	189,206
General and administrative	111,128	529,990	422,490	879,492
Depletion, depreciation and amortization	72,397	31,461	155,784	84,583
Impairment of oil and gas properties (note 5 and 6)	677,000	697,601	677,000	878,145
Total expenses	<u>940,628</u>	<u>1,379,117</u>	<u>1,406,337</u>	<u>2,031,426</u>
<b>Net operating loss</b>	(909,377)	(872,076)	(1,288,633)	(1,261,075)
<b>Gain on valuation of derivative liabilities (Note 8)</b>	53,956	49,161	81,740	416,512
<b>Gain on disposal of assets (Note 6)</b>	63,000	-	63,000	-
<b>Net finance income (expense)</b>	<u>31,545</u>	<u>(8,378)</u>	<u>(2,833)</u>	<u>(45,425)</u>
<b>Net loss</b>	(760,876)	(831,293)	(1,146,726)	(889,988)
<b>Other comprehensive income</b>				
Exchange differences in translating foreign operations	<u>5,475</u>	<u>44,670</u>	<u>5,128</u>	<u>56,752</u>
<b>Other comprehensive income for the period</b>	<u>5,475</u>	<u>44,670</u>	<u>5,128</u>	<u>56,752</u>
<b>Comprehensive loss</b>	<u>\$ (755,401)</u>	<u>\$ (786,623)</u>	<u>\$ (1,141,598)</u>	<u>\$ (833,236)</u>
Net loss per common share, basic and diluted (Note 9)	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.01)

See accompanying notes

**STRATA-X ENERGY LTD.**

(Unaudited)

## Interim Condensed Consolidated Statement of Changes in Shareholders' Equity

(Expressed in U.S. Dollars)

	Share Capital	Share based Compensation Reserve	Warrants Reserve	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit (restated - Note 5 and 6)	Total
<b>Balance, 1 July 2015</b>	\$ 34,934,188	\$ 1,326,160	\$ 1,009,486	\$ 22,066,879	\$ (822,008)	\$ (45,018,898)	\$ 13,495,807
<b>Private placement, 10 August 2015 (Note 9)</b>	516,834	-	-	-	-	-	516,834
<b>Private placement, 12 November 2015 (Note 9)</b>	392,112	-	-	-	-	-	392,112
<b>Shares issued on debt conversion (Note 9)</b>	125,413	-	-	-	-	-	125,413
<b>Share-based compensation (Note 9)</b>	-	63,064	-	-	-	-	63,064
<b>Comprehensive income (loss)</b>	-	-	-	-	5,128	(1,146,726)	(1,141,598)
<b>Balance, 31 December 2015</b>	<u>\$ 35,968,547</u>	<u>\$ 1,389,224</u>	<u>\$ 1,009,486</u>	<u>\$ 22,066,879</u>	<u>\$ (816,880)</u>	<u>\$ (46,165,624)</u>	<u>\$ 13,451,632</u>
	Share Capital	Share based Compensation Reserve	Warrants Reserve	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balance, 1 July 2014	\$ 33,524,413	\$ 1,152,318	\$ 1,009,486	\$ 22,066,879	\$ (895,570)	\$ (31,774,505)	\$ 25,083,021
Private placement, 7 December 2014	852,691	-	-	-	-	-	852,691
Private placement, 21 December 2014	138,420	-	-	-	-	-	138,420
Shares issued on debt conversion	418,664	-	-	-	-	-	418,664
Share-based compensation	-	89,643	-	-	-	-	89,643
Comprehensive income (loss)	-	-	-	-	56,752	(889,988)	(833,236)
Balance, 31 December 2014	<u>\$ 34,934,188</u>	<u>\$ 1,241,961</u>	<u>\$ 1,009,486</u>	<u>\$ 22,066,879</u>	<u>\$ (838,818)</u>	<u>\$ (32,664,493)</u>	<u>\$ 25,749,203</u>

See accompanying notes

**STRATA-X ENERGY LTD.**

(Unaudited)

## Interim Condensed Consolidated Statement of Cash Flows

(Expressed in U.S. Dollars)

	<b>Six months ended 31 December</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash and cash equivalents provided by (used in):</b>		
<b>Operating activities:</b>		
Net loss for the period	\$ (1,146,726)	\$ (889,988)
Adjustments for:		
Depletion, depreciation and amortization	155,784	84,583
Accretion of decommissioning provisions	4,907	49,436
Share-based compensation	63,064	89,643
Impairment loss of oil and gas properties	677,000	878,145
Gain on disposal of assets	(63,000)	-
Gain on valuation of derivative liabilities	(81,740)	(416,512)
Operating cash flows before changes in non-cash working capital	(390,711)	(204,693)
Changes in non-cash working capital (Note 10)	(74,509)	(409,293)
Net cash used in operating activities:	(465,220)	(613,986)
<b>Investing activities:</b>		
Exploration and evaluation assets expenditures	(47,572)	(2,317,646)
Proceeds from sale of oil and gas properties	200,000	-
Property and equipment expenditures	(554,968)	(1,216)
Proceeds from sale of investments	-	60,000
Net cash used in investing activities:	(402,540)	(2,258,862)
<b>Financing activities:</b>		
Advances from related parties	-	418,664
Proceeds from issuance of common stock	1,027,595	1,059,957
Payment of share issuance costs	(39,788)	(68,846)
Amounts paid to related parties	(81,805)	(160,967)
Net cash provided by financing activities:	906,002	1,248,808
<b>Increase (decrease) in cash and cash equivalents</b>	<b>38,242</b>	<b>(1,624,040)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>957,410</b>	<b>3,758,172</b>
<b>Effect of exchange rate translation</b>	<b>5,012</b>	<b>30,844</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,000,664</b>	<b>\$ 2,164,976</b>

*See accompanying notes*

# **STRATA-X ENERGY LTD.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 2015

(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 California and Illinois within the United States and in Western Australia, Australia. In October 2012, the Company announced a continuation into the province of British Columbia. The headquarters of the Company is located at 1550 Larimer Street, Suite #263, Denver, Colorado 80202.

### **Going Concern**

The interim condensed consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company incurred a net loss of \$1,146,726 for the six months ended 31 December 2015 (year ended 30 June 2015 - \$13,244,393) and has an accumulated deficit of \$46,165,624 as of 31 December 2015 (30 June 2015 - \$45,018,898). In addition, the Company generated negative operating cash flows before changes in non-cash working capital of \$390,711 (2014 - \$204,693) for the six month period ended 31 December 2015.

Management has been and continues to be active in seeking additional means to sustain the Company's financial position including but not limited to reviewing potential mergers and acquiring and disposing of oil and natural gas properties. In addition, the Company continues to focus on minimal capital activities, reducing operating and general and administrative costs and enhancing operational efficiencies to preserve the Company's financial health and sustainability in a low commodity price environment. During the six month period ended 31 December 2015, the Company was successful in completing two private placements for gross proceeds of approximately \$1,027,600. The proceeds of such offerings are utilized primarily towards funding operations and general and administrative expenses. Management anticipates the need for further financing and/or equity funding to fund future exploration and development of the Company's various oil and gas properties.

The Company cannot provide any assurance that sufficient cash flows will be generated from operating activities or that proceeds from other activities noted above will be able to sustain the Company's financial position.

The above-noted factors describe matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern. Management considers the Company is a going concern and has prepared the condensed interim financial statements on a going concern basis.

# STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 2015

(Expressed in U.S. Dollars)

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## 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 2015.

The policies applied in these interim condensed consolidated financial statements are based on IFRS issued and outstanding as of 9 February 2016, the date of the Board of Directors' approval of the statements.

### b) Principles of Consolidation

The interim condensed 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.

### c) Basis of Measurement

The interim condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and share-based compensation transactions, which were measured at fair value.

### d) Functional and Presentation Currency

The interim condensed consolidated financial statements are presented in United States Dollars, which is the Company's functional currency. 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.

### e) Management's Significant Estimates, Judgments and Assumptions

The timely preparation of financial statements requires management to make judgments, 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. Accordingly, 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. There have been no changes to the use of estimates or management's judgments since 30 June 2015.

## STRATA-X ENERGY LTD.

(Unaudited)

### Notes to the Interim Condensed Consolidated Financial Statements

31 December 2015

(Expressed in U.S. Dollars)

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#### 3. Significant Accounting Policies

The interim condensed consolidated financial statements have been prepared following the same accounting policies and methods of computation as the Company's 30 June 2015 annual financial statements. The Company continues to assess the impact of adopting the pronouncements of the IASB as described in the Company's 30 June 2015 annual financial statements.

#### 4. Segment Reporting

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

As at and for the period ended 31 December 2015:

	Canada	United States	Australia	Total
Revenues	-	\$117,704	-	\$117,704
Net income (loss)	(\$236,983)	(\$905,204)	(\$4,539)	(\$1,146,726)
Non-current assets	-	\$14,165,421	-	\$14,265,421
Total assets	\$63,144	\$15,092,647	\$73,437	\$15,229,228
Total liabilities	\$63,680	\$1,636,939	\$76,977	\$1,777,596

As at and for the period ended 30 June 2015:

	Canada	United States	Australia	Total
Revenues	-	\$953,999	-	\$953,999
Net income (loss)	(\$402,227)	(\$12,835,886)	(\$6,280)	(\$13,244,393)
Non-current assets	-	\$14,473,255	-	\$14,473,255
Total assets	\$48,412	\$15,364,567	\$128,527	\$15,541,506
Total liabilities	\$146,056	\$1,817,962	\$81,681	\$2,045,699

## STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 2015

(Expressed in U.S. Dollars)

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### 5. Exploration and Evaluation Assets

	<u>31 December 2015</u>	<u>30 June 2015 (restated)</u>
Balance, beginning of period	\$ 1,907,780	\$ 22,176,955
Addition	47,572	2,382,877
Transfer to property and equipment (note 6)	-	(10,278,922)
Impairment loss	<u>(405,000)</u>	<u>(12,373,130)</u>
Balance, end of period	<u>\$ 1,550,352</u>	<u>\$ 1,907,780</u>

As at 31 December 2015 the Company determined there to be indicators of impairment regarding exploration and evaluation assets, based on the prolonged decline of crude oil prices and management's reallocations of future capital spending. During the six months ended 31 December 2015, the Company recorded an impairment loss of \$126,000 related to properties located in California and \$279,000 related to properties in Illinois as management determined that the carrying values of these projects exceeded their recoverable amount.

Subsequent to 30 June 2015, management determined that certain assets originally recorded as exploration and evaluation assets at 30 June 2015 related to properties in Illinois and California with carrying values of \$4,909,683 and \$464,317, respectively, had reached technical feasibility as proved and probable reserves were assigned by the Company's external reserve evaluator at 30 June 2015. Consequently, the carrying value of exploration and evaluation assets has been reduced by \$5,374,000 with a corresponding increase to property and equipment.

**STRATA-X ENERGY LTD.**

(Unaudited)

## Notes to the Interim Condensed Consolidated Financial Statements

31 December 2015

(Expressed in U.S. Dollars)

**6. Property and Equipment**

<b>Cost</b>							
	<b>Balance at 30 June 2014</b>	<b>Additions (restated)</b>	<b>Transfers from exploration and evaluation assets (restated - Note 5)</b>	<b>Balance at 30 June 2015 (restated)</b>	<b>Additions</b>	<b>Dispositions</b>	<b>Balance at 31 December 2015</b>
Oil and gas properties	\$ 2,303,436	\$ -	\$ 10,278,922	\$ 12,582,358	\$ 648,968	\$ (248,590)	\$ 12,982,736
Computer equipment and software	17,778	1,254	-	19,032	-	-	19,032
	<u>\$ 2,321,214</u>	<u>\$ 1,254</u>	<u>\$ 10,278,922</u>	<u>\$ 12,601,390</u>	<u>\$ 648,968</u>	<u>\$ (248,590)</u>	<u>\$ 13,001,768</u>
<b>Accumulated Depletion, Depreciation, Amortization and Impairment</b>							
	<b>Balance at 30 June 2014</b>	<b>Additions (restated - Note 5 and 6)</b>	<b>Balance at 30 June 2015 (restated)</b>	<b>Additions</b>	<b>Impairment loss</b>	<b>Balance at 31 December 2015</b>	
Oil and gas properties	\$ 119,936	\$ 149,789	\$ 269,725	\$ 154,000	\$ 195,000	\$ 618,725	
Computer equipment and software	6,794	3,739	10,533	1,784	-	12,317	
	<u>\$ 126,730</u>	<u>\$ 153,528</u>	<u>\$ 280,258</u>	<u>\$ 155,784</u>	<u>\$ 195,000</u>	<u>\$ 631,042</u>	
<b>Net Book Value</b>							
	<b>Balance at 30 June 2015 (restated - Note 5 and 6)</b>	<b>Balance at 31 December 2015</b>					
Oil and gas properties	\$ 12,312,633	\$ 12,364,011					
Computer equipment and software	8,499	6,715					
	<u>\$ 12,321,132</u>	<u>\$ 12,370,726</u>					

Capitalized general and administrative expenses that comprise additions to property and equipment above for the six months ended 31 December 2015 and the year ended 30 June 2015 are \$199,833 and \$523,806, respectively.

During the six months ended 31 December 2015, the Company disposed of its working interest in a property located in California for total cash proceeds of \$200,000 and the settlement of \$63,000 of net amounts owed to the purchaser, for a total gain on sale of \$63,000.



## STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 2015

(Expressed in U.S. Dollars)

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### 6. Property and Equipment (continued)

#### Impairment

##### (a) Impairment – 31 December 2015

The Company assesses many factors when determining if an impairment test should be performed. At 31 December 2015, the Company determined that impairment indicators existed for the Company's CGUs. In performing the review, management determined that the ongoing decline in commodity pricing and the impact of these price declines on the economic performance of the Company's CGUs justified review of the recoverable amount of all CGUs.

The recoverable amounts of 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 published by the Company's external reserve evaluators at 31 December 2015 based on total proved and probable reserves estimated by the Company's external reserve evaluators at 30 June 2015. The future net cash flows for all impairment test calculations performed were discounted at a rate of 10% per annum (30 June 2015 – 10%). The estimation of proved and probable reserves and related net cash flows is inherently subjective and involves considerable estimation uncertainty.

For the six months ended 31 December 2015, an impairment loss of \$195,000 was recognized related to properties in Texas where the recoverable amount was determined to be \$nil, and has been included in impairment loss. The recoverable amounts for the California and Illinois CGUs exceeded the Company's carrying value for these oil and gas properties and no impairment loss was required at 31 December 2015.

The following represent the forecasted prices used to determine fair values in the 31 December 2015 impairment test:

<u>Calendar year</u>	<u>Average USD price per barrel</u>
2016	\$45.00
2017	\$55.00
2018	\$65.00
2019	\$70.00
2020	\$75.00
2021	\$78.00
2022	\$81.00
2023	\$85.00
2024 and thereafter	2% escalation

## STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 2015

(Expressed in U.S. Dollars)

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### 6. Property and Equipment (continued)

#### Impairment (continued)

##### (b) Impairment – 30 June 2015 (restated)

As discussed in Note 5, additional carrying values of \$5,374,000 were transferred from exploration and evaluation assets to property and equipment as a result of the restatement at 30 June 2015. In addition, the Company recalculated the recoverable amount of the specific Illinois and California CGUs as the initial impairment calculations performed used before tax future net cash flows from oil and natural gas from proved reserves only. The adjustment to the recoverable amounts to include before tax future net cash flows from oil and natural gas proved and probable reserves resulted in no impairment loss to be recognized for the year ended 30 June 2015. Consequently, the impairment loss of \$5,202,993 that was initially recorded for the year ended 30 June 2015 was reversed in its entirety. This resulted in a decrease to impairment expense of \$5,202,993 in the consolidated statement of comprehensive loss for the year ended 30 June 2015 and a corresponding increase to property and equipment as of 30 June 2015.

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.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 2015

(Expressed in U.S. Dollars)

**7. Decommissioning Provisions**

	<b>31 December 2015</b>	30 June 2015
Balance, beginning of period	<b>\$ 993,683</b>	\$ 916,934
Change in discount rate	<b>171,000</b>	51,278
Dispositions	<b>(48,590)</b>	-
Change in cash flow estimates	-	1,144
Accretion expense	<b>4,907</b>	24,327
Balance, end of period	<b><u>\$ 1,121,000</u></b>	<b><u>\$ 993,683</u></b>

The Company has calculated the fair value of decommissioning provisions using a discount rate of 2.5% (30 June 2015 – 2.4% to 4.8%). The estimated undiscounted future cash flows to settle decommissioning provisions are \$1,220,000 (30 June 2015 - \$1,220,000) and are expected to be realized over a period defined as the remaining useful life in the Company's most recent reserve report which is approximately 15 to 24 years.

The fair value of certain oil and natural gas properties of the Company is \$nil. Accordingly, the change in discount rate and estimates related to these properties was recorded as an adjustment to impairment loss for the six month period ending 31 December 2015 of \$77,000.

## STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 2015

(Expressed in U.S. Dollars)

### 8. 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 2014	146,288,969	\$ 33,524,413
Private placement, 7 December 2014	6,518,230	921,537
Share issuance costs		(68,846)
Shares issued on debt conversion	2,777,778	418,664
Private placement, 21 December 2014	<u>1,000,000</u>	<u>138,420</u>
Balance at 30 June 2015	156,584,977	34,934,188
Private placement, 10 August 2015	10,310,250	556,622
Share issuance costs		(39,788)
Private placement, 12 November 2015	7,037,500	392,112
Shares issued on debt conversion	<u>2,392,858</u>	<u>125,413</u>
Balance at 31 December 2015	<u><u>176,325,585</u></u>	<u><u>\$ 35,968,547</u></u>

### Common Stock Offerings

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 a warrant. Each CDI is equivalent to and exchangeable for one common share of stock of the Company. Each warrant is exercisable into one CDI, or common share, at an exercise price of AUD\$0.12 per share. The warrants expire on 31 January 2017. The gross proceeds of CDN\$ 798,134 (US\$611,363) and CDN\$71,472 (US\$54,741) were allocated to the common shares and warrants, respectively. The fair value of the 5,155,125 warrants on 10 August 2015 of CDN \$0.02 per warrant was determined using the Black Scholes model using the following assumptions: share price of AUD \$0.065; expected dividend rate of 0%; expected volatility of 64%; risk free rate of 0.65%; and expected life of 1.5 years.

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

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 2015

(Expressed in U.S. Dollars)

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### **8. Share Capital (continued)**

#### **Common Stock Offerings (continued)**

On 12 November 2015 the Company completed a private placement of 7,037,500 units. Each unit consists of one CDI and one half of a warrant. Each CDI is equivalent to and exchangeable for one common share of the Company. Each warrant is exercisable into one CDI, or common share, at an exercise price of AUD\$0.12 per share. The warrants expire on 31 January 2017. The gross proceeds of CDN\$ 546,791 (US\$416,232) and CDN\$32,104 (US\$24,120) were allocated to the common shares and warrants, respectively. The fair value of the 3,518,750 warrants on 12 November 2015 of CDN \$0.01 per warrant was determined using the Black Scholes model using the following assumptions: expected dividend rate of 0%; expected volatility of 73%; risk free rate of 0.41%; and expected life of 1.2 years.

#### **Conversion of Debt**

On 16 November 2015 the Company issued 2,392,858 common shares to certain directors and past directors of the Company in consideration for settlement of amounts owing to related parties of CDN\$167,500 (USD \$125,413) at a deemed price of CDN\$0.07 per share. No gain or loss was determined as the fair value of the consideration was equal to the debt settlement amounts.

## STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 2015

(Expressed in U.S. Dollars)

### 8. Share Capital (continued)

#### Warrants

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 the derivative financial liability associated with the warrants is as follows:

	<u>31 December 2015</u>	<u>30 June 2015</u>
Balance, beginning of period	\$ 26,456	\$ 555,279
Additions	78,861	-
Fair value adjustments	(81,740)	(489,871)
Foreign exchange (gain) loss	<u>(4,892)</u>	<u>(38,952)</u>
Balance, end of period	<u>\$ 18,685</u>	<u>\$ 26,456</u>

The fair value of the warrants was determined as at 31 December 2015 and 30 June 2015 using the following weighted average assumptions:

	<u>31 December 2015</u>	<u>30 June 2015</u>
Risk-free rate	0.44%	0.46%
Expected life (years)	1.1	1.3
Expected volatility	67.5%	65.1%
Dividend yield	0.0%	0.0%
Forfeiture rate	0.0%	0.0%
Share price (AUD)	\$0.04	\$0.11

Expected volatility was determined based on the Company's historical volatility and a comparison to other companies in the business of exploration for and development of production of oil and natural gas. A forfeiture rate of 0% was used when recording stock-based compensation as all warrants vested immediately.

**STRATA-X ENERGY LTD.**

(Unaudited)

## Notes to the Interim Condensed Consolidated Financial Statements

31 December 2015

(Expressed in U.S. Dollars)

**8. Share Capital (continued)****Warrants (continued)**

Activity related to the number of warrants outstanding and exercisable for the Company is as follows:

	31 December 2015			30 June 2015		
	Number	Weighted Average Exercise Price	Currency	Number	Weighted Average Exercise Price	Currency
Balance, beginning of period	11,840,386	\$ 0.48		19,092,754	\$ 0.49	
Warrants issued in private placement 10 August 2015	5,155,125	0.12	AUD	-	-	
Warrants issued in private placement 12 November 2015	3,518,750	0.12	AUD	-	-	
Expiration of warrants	<u>(750,000)</u>	<u>0.48</u>	CDN	<u>(7,252,368)</u>	<u>0.51</u>	CDN
Balance, end of period	<u>19,764,261</u>	<u>\$ 0.32</u>		<u>11,840,386</u>	<u>\$ 0.48</u>	

The following table summarizes information on warrants outstanding at 31 December 2015:

Exercise Price	Currency	Number Outstanding	Weighted Average Contractual Life (years)
\$ 0.50	CDN	8,993,300	0.83
\$ 0.38	CDN	66,431	0.83
\$ 0.36	CDN	1,265,383	0.14
\$ 0.50	AUD	765,272	0.99
\$ 0.12	AUD	<u>8,673,875</u>	1.09
		<u>19,764,261</u>	

**STRATA-X ENERGY LTD.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 2015

(Expressed in U.S. Dollars)

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

The following table summarizes the activity of the stock options. The exercise price of the various issuances of options over time are in Canadian and Australian dollars.

	31 December 2015		30 June 2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	6,570,000	\$ 0.33	6,270,000	\$ 0.36
Granted	9,400,000	0.12	1,800,000	0.30
Expired	<u>(375,000)</u>	<u>0.34</u>	<u>(1,500,000)</u>	<u>0.41</u>
Outstanding, end of period	<u>15,595,000</u>	<u>\$ 0.20</u>	<u>6,570,000</u>	<u>\$ 0.33</u>
Exercisable, end of period	<u>5,320,000</u>	<u>\$ 0.28</u>	<u>4,695,000</u>	<u>\$ 0.33</u>

The Company granted 4,400,000 options on 11 September 2015 that vest in 25% increments every six months beginning on 11 March 2016 with the final 25% increment of options vesting on 11 September 2017.

The Company granted 5,000,000 options on 19 October 2015 that vest in 25% increments every six months beginning on 19 April 2016 with the final 25% increment of options vesting on 19 October 2017.



## STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 2015

(Expressed in U.S. Dollars)

### 8. Share Capital (continued)

#### Stock Option Plan (continued)

The following table summarizes information on stock options outstanding and exercisable at 31 December 2015:

Exercise Price	Currency	Number Outstanding	Number Exercisable	Weighted Average Contractual Life (years)
\$ 0.30	CDN	3,920,000	3,045,000	5.04
\$ 0.34	CDN	850,000	850,000	6.73
\$ 0.35	CDN	525,000	525,000	3.42
\$ 0.41	CDN	750,000	750,000	2.81
\$ 0.50	AUD	50,000	50,000	0.95
\$ 0.50	CDN	100,000	100,000	2.30
\$ 0.12	AUD	9,400,000	-	4.64
		<u>15,595,000</u>	<u>5,320,000</u>	

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

	31 December 2015	30 June 2015
Exercise price	<u>\$0.12 AUD</u>	<u>\$0.30 CDN</u>
Grant date fair value	\$0.07	\$0.07
Expected dividend rate	0%	0%
Expected volatility	58%	62%
Risk-free interest rate	0.84%	1.60%
Expected life of options (years)	4.88	5.00
Forfeiture rate	0.0%	0.0%
Share price on grant date	\$0.12 AUD	\$0.17 CDN

The fair value recognized for stock options during the six months ended 31 December 2015 is \$63,064 (2014 - \$89,643). 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.

Expected volatility was determined based on the Company's historical volatility and a comparison to other companies in the business of exploration for and development of production of oil and natural gas. A forfeiture rate of 0% was used when recording stock-based compensation as it is expected that all officers, directors, employees and consultants will continue with the Company over the vesting period.

## STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 2015

(Expressed in U.S. Dollars)

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### 9. 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 ended 31 December 2015 and 31 December 2014 of 171,813,880 and 167,057,161, respectively (2014 – 148,400,005 and 147,334,487, 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.

### 10. Supplemental Cash Flow Information

Changes in non-cash working capital items:

	<b>Six months ended 31 December</b>	
	<b>2015</b>	<b>2014</b>
Accounts receivable	\$ 34,698	\$ (140,774)
Prepays and other	-	(3)
Accounts payable and accrued liabilities	(15,373)	(268,516)
Deposits	(93,834)	-
	<u>\$ (74,509)</u>	<u>\$ (409,293)</u>

Non-cash transactions (note 7 and note 9)

### 11. 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 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 six months ended 31 December 2015, the Company incurred approximately \$31,800 (2014 - \$32,500) in costs payable to the outside firm for accounting services.

On 16 November 2015, the Company issued common shares to certain directors of the Company in consideration of settlement of debt as discussed in Note 8.

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

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 2015

(Expressed in U.S. Dollars)

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### **12. 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. There have been no changes to these policies during the period ended 31 December 2015.

#### **Market risk**

The Company's exposure to financial market risk is the risk that the fair value of 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. There have been no significant changes to the Company's market risks other than as noted below:

#### **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economy. The Company continues to monitor its actual and forecast cash flows to review whether there are adequate reserves to meet its financial obligations on an ongoing basis. As at 31 December 2015, the Company had a positive working capital of approximately \$489,000. Continuing weak commodity prices experienced during 2015 have negatively impacted earnings and operating cash flow for the period.

The Company continues to focus on minimal capital activities, reducing operating and general and administrative costs and enhancing operational efficiencies to preserve the Company's financial health and sustainability in a low commodity price environment. The Company cannot provide any assurance that sufficient cash flows will be generated from operating activities or that proceeds from other activities will be able to provide adequate working capital to sustain operations for the long-term.

### **13. 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. As noted above, the Company continues to focus on activities that utilize minimal capital based on the current overall capital constraints the Company is experiencing as a result of the sustained low commodity price environment.

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.