

STRATA-X ENERGY LTD.

(Unaudited)

Interim Condensed Consolidated Financial Statements

For the Nine Months Ended 31 March 2016

(Expressed in U.S. Dollars)

**NOTICE OF NO AUDITOR REVIEW OF
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, "Continuous Disclosure Obligations", Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the interim condensed consolidated financial statements have not been reviewed by an auditor.

The Company's external auditors, Collins Barrow Edmonton LLP, have not performed a review of these interim condensed consolidated financial statements.

Chief Executive Officer

Chief Financial Officer

25 April 2016

STRATA-X ENERGY LTD.

(Unaudited)

Interim Condensed Consolidated Statement of Financial Position

(Expressed in U.S. Dollars)

	31 March 2016	30 June 2015 (Restated - notes 5 and 6)
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 886,534	\$ 957,410
Accounts receivable	34,790	94,861
Prepays, deposits and other	15,980	15,980
Total current assets	937,305	1,068,251
Other assets	244,343	244,343
Exploration and evaluation assets (Note 5)	462,624	1,907,780
Property and equipment (Note 6)	12,297,120	12,321,132
Total assets	\$ 13,941,392	\$ 15,541,506
LIABILITIES:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 298,799	\$ 443,428
Deposits	23,236	117,070
Derivative warrants (Note 8)	60,546	-
Amounts due to related parties	147,293	402,014
Total current liabilities	529,874	962,512
Derivative warrants (Note 8)	-	26,456
Accrued liabilities	63,048	63,048
Decommissioning provisions (Note 7)	1,121,000	993,683
Total liabilities	1,713,922	2,045,699
SHAREHOLDERS' EQUITY:		
Share capital (Note 8)	35,968,547	34,934,188
Share based compensation reserve (Note 8)	1,439,953	1,326,160
Warrant reserve (Note 8)	1,009,486	1,009,486
Contributed surplus	22,066,879	22,066,879
Accumulated other comprehensive income	(822,066)	(822,008)
Deficit	(47,435,327)	(45,018,898)
Total shareholders' equity	12,227,471	13,495,807
Total liabilities and shareholders' equity	\$ 13,941,392	\$ 15,541,506

Approved on behalf of the Board

Director
See accompanying notes

Director

STRATA-X ENERGY LTD.

(Unaudited)

Interim Condensed Consolidated Statement of Loss and Comprehensive Loss

(Expressed in U.S. Dollars)

	Three months ended 31 March		Nine months ended 31 March	
	2016	2015	2016	2015
Oil and gas revenue, net of royalties	\$ 5,607	\$ 101,464	\$ 123,311	\$ 871,815
Expenses				
Production and operating	12,640	98,621	165,487	287,827
General and administrative	132,464	441,784	555,146	1,321,276
Depletion, depreciation and amortization	-	13,429	152,941	98,012
Impairment of oil and gas properties (note 5 and 6)	1,101,623	-	1,779,682	878,145
Total expenses	<u>1,246,726</u>	<u>553,834</u>	<u>2,653,257</u>	<u>2,585,260</u>
Loss before other income	(1,241,119)	(452,370)	(2,529,946)	(1,713,445)
Other income	<u>-</u>	<u>23,126</u>	<u>-</u>	<u>23,126</u>
Net operating loss	(1,241,119)	(429,244)	(2,529,946)	(1,690,319)
Gain (loss) on valuation of derivative liabilities (Note 8)	(28,881)	59,085	52,860	475,596
Gain on disposal of assets (Note 6)	-	-	63,000	-
Net finance income (expense)	<u>297</u>	<u>(17,345)</u>	<u>(2,343)</u>	<u>(62,771)</u>
Net loss	(1,269,703)	(387,504)	(2,416,429)	(1,277,494)
Other comprehensive income				
Exchange differences in translating foreign operations	<u>(5,187)</u>	<u>5,200</u>	<u>(58)</u>	<u>61,952</u>
Other comprehensive income for the period	<u>(5,187)</u>	<u>5,200</u>	<u>(58)</u>	<u>61,952</u>
Comprehensive loss	<u>\$ (1,274,891)</u>	<u>\$ (382,304)</u>	<u>\$ (2,416,488)</u>	<u>\$ (1,215,542)</u>
Net loss per common share, basic and diluted (Note 9)	\$ (0.01)	\$ (0.00)	\$ (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
Balance, 1 July 2015	\$ 34,934,188	\$ 1,326,160	\$ 1,009,486	\$ 22,066,879	\$ (822,008)	\$ (45,018,898)	\$ 13,495,807
Private placement, 10 August 2015 (Note 8)	516,834	-	-	-	-	-	516,834
Private placement, 12 November 2015 (Note 8)	392,112	-	-	-	-	-	392,112
Shares issued on debt conversion (Note 8)	125,413	-	-	-	-	-	125,413
Share-based compensation (Note 8)	-	113,792	-	-	-	-	113,792
Comprehensive income (loss)	-	-	-	-	(58)	(2,416,429)	(2,416,487)
Balance, 31 March 2016	<u>\$ 35,968,547</u>	<u>\$ 1,439,952</u>	<u>\$ 1,009,486</u>	<u>\$ 22,066,879</u>	<u>\$ (822,066)</u>	<u>\$ (47,435,327)</u>	<u>\$ 12,227,471</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	-	135,811	-	-	-	-	135,811
Comprehensive income (loss)	-	-	-	-	61,952	(1,277,494)	(1,215,542)
Balance, 31 March 2015	<u>\$ 34,934,188</u>	<u>\$ 1,288,129</u>	<u>\$ 1,009,486</u>	<u>\$ 22,066,879</u>	<u>\$ (833,618)</u>	<u>\$ (33,051,999)</u>	<u>\$ 25,413,065</u>

See accompanying notes

STRATA-X ENERGY LTD.

(Unaudited)

Interim Condensed Consolidated Statement of Cash Flows

(Expressed in U.S. Dollars)

	Nine months ended 31 March	
	2016	2015
Cash and cash equivalents provided by (used in):		
Operating activities:		
Net loss for the period	\$ (2,416,429)	\$ (1,277,494)
Adjustments for:		
Depletion, depreciation and amortization	152,941	98,012
Accretion of decommissioning provisions	4,371	68,158
Share-based compensation	113,792	135,811
Impairment loss of oil and gas properties	1,779,682	878,145
Loss on adjustment of decommissioning provision	76,411	-
Gain on disposal of assets	(63,000)	-
Gain on valuation of derivative liabilities	(52,860)	(475,596)
Operating cash flows before changes in non-cash working capital	(405,092)	(572,964)
Changes in non-cash working capital (Note 10)	(119,256)	(321,078)
Net cash used in operating activities:	(524,348)	(894,042)
Investing activities:		
Exploration and evaluation assets expenditures	(307,415)	(2,676,940)
Proceeds from sale of oil and gas properties	200,000	-
Property and equipment expenditures	(306,341)	(1,254)
Proceeds from sale of investments	-	60,000
Net cash used in investing activities:	(413,756)	(2,618,194)
Financing activities:		
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	(129,308)	(96,812)
Net cash provided by financing activities:	858,499	1,312,963
Increase (decrease) in cash and cash equivalents	(79,605)	(2,199,273)
Cash and cash equivalents, beginning of period	957,410	3,758,172
Effect of exchange rate translation	8,729	15,932
Cash and cash equivalents, end of period	<u>\$ 886,534</u>	<u>\$ 1,574,831</u>

See accompanying notes

STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 March 2016

(Expressed in U.S. Dollars)

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 \$2,416,429 for the nine months ended 31 March 2016 (year ended 30 June 2015 - \$13,244,393) and has an accumulated deficit of \$47,435,327 as of 31 March 2016 (30 June 2015 - \$45,018,898). In addition, the Company generated negative operating cash flows before changes in non-cash working capital of \$405,092 (2015 - \$572,963) for the nine month period ended 31 March 2016.

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 nine month period ended 31 March 2016, 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 March 2016

(Expressed in U.S. Dollars)

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 25 April 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.

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Notes to the Interim Condensed Consolidated Financial Statements

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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 March 2016:

	Canada	United States	Australia	Total
Revenues	-	\$123,311	-	\$123,311
Net income (loss)	(\$271,687)	(\$2,336,049)	(\$8,693)	(\$2,416,429)
Non-current assets	-	\$13,004,087	-	\$13,004,087
Total assets	\$55,193	\$13,826,698	\$59,501	\$13,941,392
Total liabilities	\$67,942	\$1,601,835	\$44,145	\$1,713,922

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

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Notes to the Interim Condensed Consolidated Financial Statements

31 March 2016

(Expressed in U.S. Dollars)

5. Exploration and Evaluation Assets

	<u>31 March 2016</u>	<u>30 June 2015 (restated)</u>
Balance, beginning of period	\$ 1,907,780	\$ 22,176,955
Addition	61,467	2,382,877
Transfer to property and equipment (note 6)	-	(10,278,922)
Impairment loss	<u>(1,506,623)</u>	<u>(12,373,130)</u>
Balance, end of period	<u>\$ 462,624</u>	<u>\$ 1,907,780</u>

As at 31 March 2016 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 nine months ended 31 March 2016, the Company recorded an impairment loss of \$126,000 related to properties located in California, \$279,000 related to properties in Illinois and \$1,101,623 related to properties located in North Dakota 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 March 2016

(Expressed in U.S. Dollars)

6. Property and Equipment

Cost							
	Balance at 30 June 2014	Additions (restated)	Transfers from exploration and evaluation assets (restated - Note 5)	Balance at 30 June 2015 (restated)	Additions	Dispositions	Balance at 31 March 2016
Oil and gas properties	\$ 2,303,436	\$ -	\$ 10,278,922	\$ 12,582,358	\$ 572,521	\$ (248,590)	\$ 12,906,289
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>\$ 572,521</u>	<u>\$ (248,590)</u>	<u>\$ 12,925,321</u>
Accumulated Depletion, Depreciation, Amortization and Impairment							
	Balance at 30 June 2014	Additions (restated - Note 5 and 6)	Balance at 30 June 2015 (restated)	Additions	Impairment loss	Balance at 31 March 2016	
Oil and gas properties	\$ 119,936	\$ 149,789	\$ 269,725	\$ 151,159	\$ 195,000	\$ 615,884	
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>\$ 152,943</u>	<u>\$ 195,000</u>	<u>\$ 628,201</u>	
Net Book Value							
	Balance at 30 June 2015 (restated - Note 5 and 6)	Balance at 31 March 2016					
Oil and gas properties	\$ 12,312,633	\$ 12,290,405					
Computer equipment and software	8,499	6,715					
	<u>\$ 12,321,132</u>	<u>\$ 12,297,120</u>					

Capitalized general and administrative expenses that comprise additions to property and equipment above for the nine months ended 31 March 2016 and the year ended 30 June 2015 are \$123,376 and \$523,806, respectively.

During the nine months ended 31 March 2016, 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 March 2016

(Expressed in U.S. Dollars)

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 nine months ended 31 March 2016, 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 based on the assessment performed as of 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.

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Notes to the Interim Condensed Consolidated Financial Statements

31 March 2016

(Expressed in U.S. Dollars)

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

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Notes to the Interim Condensed Consolidated Financial Statements

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(Expressed in U.S. Dollars)

7. Decommissioning Provisions

	31 March 2016	30 June 2015
Balance, beginning of period	\$ 993,683	\$ 916,934
Change in discount rate	171,000	51,278
Dispositions	(48,590)	-
Change in cash flow estimates	-	1,144
Accretion expense	4,907	24,327
Balance, end of period	<u>\$ 1,121,000</u>	<u>\$ 993,683</u>

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 nine month period ending 31 March 2016 of \$77,000.

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Notes to the Interim Condensed Consolidated Financial Statements

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(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 March 2016	<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.

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Notes to the Interim Condensed Consolidated Financial Statements

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(Expressed in U.S. Dollars)

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.

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Notes to the Interim Condensed Consolidated Financial Statements

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(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:

	31 March 2016	30 June 2015
Balance, beginning of period	\$ 26,456	\$ 555,279
Additions	78,861	-
Fair value adjustments	(52,860)	(489,871)
Foreign exchange (gain) loss	8,090	(38,952)
Balance, end of period	<u>\$ 60,547</u>	<u>\$ 26,456</u>

The fair value of the warrants was determined as at 31 March 2016 and 30 June 2015 using the following weighted average assumptions:

	31 March 2016	30 June 2015
Risk-free rate	0.65%	0.46%
Expected life (years)	0.7	1.3
Expected volatility	79.4%	65.1%
Dividend yield	0.0%	0.0%
Forfeiture rate	0.0%	0.0%
Share price (AUD)	\$0.08	\$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.

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

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

	31 March 2016			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>(2,015,383)</u>	<u>0.40</u>	CDN	<u>(7,252,368)</u>	<u>0.51</u>	CDN
Balance, end of period	<u>18,498,878</u>	<u>\$ 0.32</u>		<u>11,840,386</u>	<u>\$ 0.48</u>	

The following table summarizes information on warrants outstanding at 31 March 2016:

Exercise Price	Currency	Number Outstanding	Weighted Average Contractual Life (years)
\$ 0.50	CDN	8,993,300	0.58
\$ 0.38	CDN	66,431	0.58
\$ 0.50	AUD	765,272	0.74
\$ 0.12	AUD	<u>8,673,875</u>	0.84
		<u>18,498,878</u>	

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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 March 2016		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>(900,000)</u>	<u>0.35</u>	<u>(1,500,000)</u>	<u>0.41</u>
Outstanding, end of period	<u>15,070,000</u>	<u>\$ 0.20</u>	<u>6,570,000</u>	<u>\$ 0.33</u>
Exercisable, end of period	<u>5,895,000</u>	<u>\$ 0.29</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.

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

The following table summarizes information on stock options outstanding and exercisable at 31 March 2016:

Exercise Price	Currency	Number Outstanding	Number Exercisable	Weighted Average Contractual Life (years)
\$ 0.30	CDN	3,920,000	3,045,000	4.79
\$ 0.34	CDN	850,000	850,000	6.48
\$ 0.41	CDN	750,000	750,000	2.56
\$ 0.50	AUD	50,000	50,000	0.70
\$ 0.50	CDN	100,000	100,000	2.05
\$ 0.12	AUD	9,400,000	1,100,000	4.39
		<u>15,070,000</u>	<u>5,895,000</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 March 2016	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 nine months ended 31 March 2016 is \$113,792 (2015 - \$135,811). 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.

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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 nine months ended 31 March 2016 and 31 March 2015 of 176,325,585 and 170,124,167, respectively (2015 – 156,584,977 and 150,379,684, 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:

	Nine months ended 31 March	
	2016	2015
Accounts receivable	\$ 60,210	\$ (90,175)
Prepays and other	-	1,134
Accounts payable and accrued liabilities	(85,632)	(331,584)
Deposits	(93,834)	99,547
	<u>\$ (119,256)</u>	<u>\$ (321,078)</u>

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 nine months ended 31 March 2016, the Company incurred approximately \$47,800 (2015 - \$48,700) 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.

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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 March 2016.

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 March 2016, the Company had a positive working capital of approximately \$468,000. Continuing weak commodity prices experienced during 2016 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.