



# STRATA-X

## ENERGY

### Management Discussion and Analysis

For Quarter Ended  
30 September 2016

#### Quarter Highlights

- › 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.

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

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## Stock Exchanges

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

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**Mr. Tim Bradley** –  
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**Mr. Bohdan (Don) Romaniuk** –  
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## Disclaimer

The following Managements Discussion and Analysis (the "MD&A") for Strata-X Energy Ltd. (hereinafter, "Strata-X Energy", "Company" or "Strata-X") prepared as of 26 October 2016, should be read together with the interim condensed consolidated financial statements for the three months ending 30 September 2016 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 27 September 2016 including; 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 27 September 2016.

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.

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.

Strata-X has reduced its operating and overhead costs substantially, including significantly cutting salaries and, effective 1 March 2016, eliminating all Directors' fees, while still protecting the key assets of the Company for future growth and is positioning itself to take advantage of opportunities which may arise in the current market.

## Illinois Basin Project

Illinois Basin, USA  
100% of ~20.618 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” unrisks) 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 fiscal 2017 subject to market conditions.



(1) This information originally in the Company's 51-101 Reserve Report for FY 2016 which is available for viewing at [www.strata-x.com](http://www.strata-x.com).

## Illinois Basin Project (cont.)

Illinois Basin, USA  
100% of ~20,618 net acres

## Horizontal Program

- › Since production began, the 5-34HOR well has produced approximately 18,500 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. The Burkett 5-34 well was recently restarted following some surface upgrades after being shut in earlier this year. The well has been slowly drawing down and is currently producing 34 barrels of oil per day and approximately 650 barrels of water. It is anticipated that the oil rate will continue to rise as the reservoir is slowly drawn down.
- › 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.
- › 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.



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.

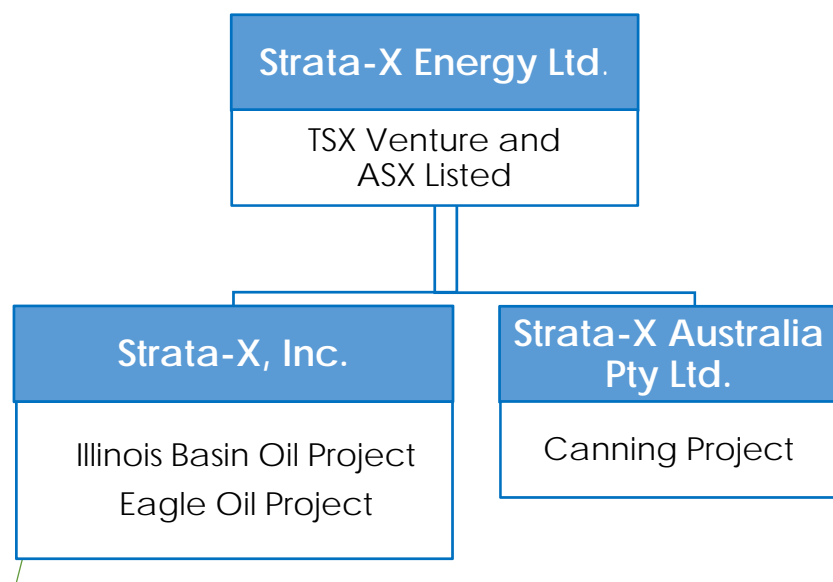
The Company was incorporated as Ozcapital Ventures Inc. on 18 June 2007 in the province of Alberta, Canada under the Alberta Business Corporations Act. Ozcapital Ventures Inc. was a Capital Pool Corporation and its primary business purpose was to identify and evaluate businesses suitable for a qualifying transaction. It completed a qualifying transaction effective 22 September 2011 pursuant to which it changed its name to Strata-X Energy 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.

The corporate structure of the Company is as follows:



## Company Outlook

The economic framework of the energy industry has, since mid-2014, 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's other, non-core, projects may be released or allowed to expire pending an improvement in market conditions.

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 the Illinois Oil Project.

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 relatively unsophisticated. 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 2016 ("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\$44.126 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 fiscal 2017, subject to available funds and market conditions.

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 30 September 2016, the Company invested ~\$8,000 in the Illinois Basin Oil Project, principally on lease and project maintenance. Subject to available funds, the Company plans to drill up to three vertical wells for the Company's vertical by-passed pay programme during calendar year 2017.

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. As of the date of this report, the Cinco Saus Creek #1 is not plugged or abandoned and is awaiting reclamation approval from the surface and mineral owner.

The Company drilled and cased its first exploratory well on its North Dakota Sleeping Giant Gas Project, the Rohweder #1-11 well in June/July 2014. The well was subsequently shut-in pending completion design and stimulation, which never occurred due to deteriorating market conditions and capital allocation constraints within Strata-X. Under the terms of the Purchase and Sale Agreement with the Sellers of the Sleeping Giant Gas Project, the Company had until 30 September 2016 to drill its remaining 3 obligation wells or rights to the project will revert to the Sellers. Given current and expected future natural gas pricing, capital allocation constraints and several development hurdles facing the Sleeping Giant Project, Strata-X's right to the Sleeping Giant Project have been terminated. The Company is currently reviewing its options to plug the Rohweder #1-11 well or otherwise discharge its plugging and restoration liability therein.

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.

(1) Information originally appears in the Company's NI 51-101 Report for FYE 2016 which is available for review at [www.strata-x.com](http://www.strata-x.com)

## Production Summary

For the three months ended 30 September 2016, oil production to the Company's net revenue interest was down 10% to 1,768 barrels (bbls) compared to 1,974 bbls for the three months ended 30 September 2015. The decrease in oil production is attributable to limited production on the Burkett 5-34HOR which was restarted in June 2016. For each of the three month periods ended 30 September 2016 and 30 September 2015, no natural gas was sold.

Total revenue for the three months ended 30 September 2016 was \$73,892 compared to \$86,452 for the three months ended 30 September 2015, a decrease of 14%. This decrease is attributed to lower production volumes and a lower price of crude oil. The average daily production for the Company during the three months ended 30 September 2016 was 19.6 bbls of oil at an average realized sale price of \$41.7 per barrel of oil. Royalties per barrel of oil averaged \$6.81, with production operating expenses for the period of \$35.78 per barrel of oil. The netback received by the Company per barrel of oil sold during the three months ended 30 September 2016 was \$5.92.

## Tenements

Project	Location	% Interest	Net Acres
Illinois Oil	Illinois, USA	100%	20,618
Canning <sup>(1)</sup>	Western Australia	100%	1,438,120
Vallecitos	California, USA	22.5%	3,673
Eagle	California, USA	23.9%	770
<b>Total</b>			<b>1,463,181</b>

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

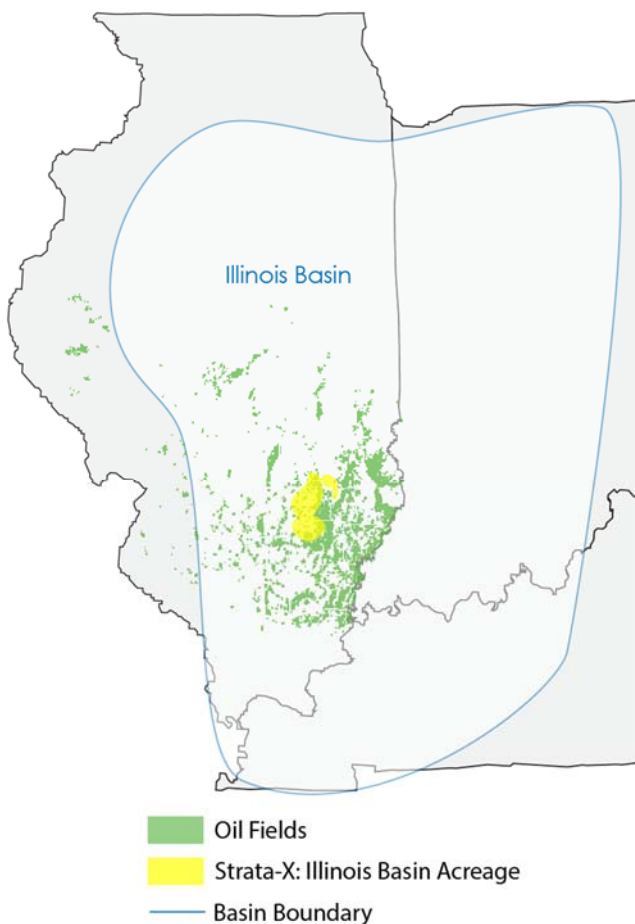
During the quarter ended 30 September 2016, Strata-X did not have any material reductions in its tenement/lease position. In the remainder of 2016, the Company expects further lease reductions of approximately 2,000 net acres on the Illinois Project.

- › Illinois Basin, Illinois: 20,618 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 20,618 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 20,618 net acres in the Illinois Basin. The secured lease rights contain favorable terms and provide an average net revenue interest to the Company of 85%. 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.



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

(2) I.H.S Production data, Enerdeq, [www.ihs.com](http://www.ihs.com), assessed 10/1/2014.

- › Since production began, the 5-34HOR well has produced approximately 18,500 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. The Burkett 5-34 well was recently restarted following some surface upgrades after being shut in earlier this year. The well has been slowly drawing down and is currently producing 34 barrels of oil per day and approximately 650 barrels of water. It is anticipated that the oil rate will continue to rise as the reservoir is slowly drawn down.
- › 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.
- › 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: Producing

Location: Clay County, Illinois

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

(acquired in March 2014)

Status: Shut-in

Location: Wayne County, Illinois

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

#### 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

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.

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 was subsequently shut-in while the Company reviews its options to stimulate the remaining 75% of the lateral portion of the wellbore.

- › 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.
- › 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” unrisks) 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 BOPD.<sup>(1)</sup> Drilling of the second Blue Spruce oil field development well is anticipated to commence in 2017 subject to market conditions.

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 2016, Strata-X’s independent engineer, Chapman Petroleum Engineering Ltd

(Chapman), confirmed Proved plus Probable Reserves are 1.282 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\$44.126 million (unrisks).<sup>(1)</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” unrisks) 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>

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

*1. Information originally appeared in the Company’s FYE 2016 51-101 Reserve Report available for viewing at [www.strata-x.com](http://www.strata-x.com)*

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.

## Exploration and Evaluation Project (E&E) Canning Basin Oil Project

- › 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.

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 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.



## Summary of Annual Results

Historical annual information is as follows:

	30 June 2016 (IFRS)	30 June 2015 (IFRS) (Restated)	30 June 2014 (IFRS)
Revenue, net of royalties	\$134,243	\$961,023	\$200,080
Expenses	\$(974,269)	\$(2,274,808)	\$(1,849,284)
Other income and net finance expense	\$710,195	\$494,944	\$239,149
Impairment of oil and gas properties	\$(2,311,908)	\$(12,425,552)	\$-
Net Loss	\$(2,441,739)	\$(13,244,393)	\$(1,410,055)
Basic & diluted net loss per share	\$(0.01)	\$(0.09)	\$(0.01)
Assets	\$13,515,577	\$15,541,506	\$28,608,951
Liabilities	\$1,281,280	\$2,045,699	\$3,525,930

Historical quarterly information is as follows:

	30 Sep 2016	30 June 2016	31 March 2016	31 Dec 2015	30 Sep 2015 (Restated)	30 June 2015 (Restated)	31 March 2015	31 Dec 2014	30 Sep 2014
Total Assets	\$13,242,254	\$13,515,577	\$13,941,392	\$15,229,228	\$16,026,750	\$15,541,506	\$27,314,116	\$27,684,369	\$27,018,230
Revenue, net of Royalties	\$73,892	\$10,932	\$5,607	\$31,251	\$86,453	\$82,184	\$101,464	\$507,041	\$263,310
Net Income (Loss)	\$(209,338)	\$(25,310)	\$(1,269,703)	\$(760,876)	\$(385,850)	\$(11,966,901)	\$(387,503)	\$(831,292)	\$(58,697)
Basic & diluted net income (loss) per share	\$0.00	\$0.00	\$(0.01)	\$(0.00)	\$(0.00)	\$(0.08)	\$(0.00)	\$(0.01)	\$(0.00)

## Results of Operations

As noted above, total revenue for the quarter ended 30 September 2016 was \$73,892 compared to \$86,453 for the quarter ended 30 September 2015. The decrease is due to a decline in oil production attributable to lower production on the Burkett 5-34HOR resulting from natural production decline and a lower price of crude oil.

Production and exploration expenses for the quarter ended 30 September 2016 were \$65,275 compared to \$70,960 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 30 September 2016 fell by \$166,050 to \$145,312 from \$311,362 for the same quarter last year primarily due to cost reduction measures in various operational areas of the Company.

## 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 \$(209,338) for the three months ended 30 September 2016.

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 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 interim condensed 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 \$125,500 as at 30 September 2016.

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.

Below is a summary of the Company’s contractual obligations over the next 5 years.

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Operating leases	\$30,045	\$30,045	\$Nil	\$Nil	\$Nil

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at 30 September 2016 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. The Company has 14,870,000 stock options outstanding with 8,582,500 options exercisable as of 30 September 2016. As at the date hereof, the Company has 14,870,000 stock options outstanding, with 9,832,500 options exercisable.

The Company has established a Stock Option Plan (Plan) for the benefit of directors, officers, employees and consultants of the Company. Pursuant to the Plan, 10% of the issued and outstanding common shares have been reserved for options to be granted to the Company’s directors, officers, employees and consultants. The vesting period and the exercise price of the options shall be determined by the Board of Directors. The period during which an option is exercisable shall be determined by the Board of Directors at the time of grant, but subject to the rules of the stock exchange or other applicable regulatory body.

### Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements and no outstanding future financial obligations.

### Transactions with Related Parties

The Company utilizes the services of an outside firm in which the former Chief Financial Officer (CFO) of the Company, Tim Bradley, 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 three months ended 30 September 2016, the Company incurred approximately \$16,300 (2015 - \$16,000) in costs with the outside firm for accounting services.

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

## Summary of Significant Accounting Policies

The notes to the Company's 30 June 2016 annual consolidated financial statements describe the accounting policies and methods of computation used in preparing the Company's 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 2016 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 three months ended 30 September 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 herein.

### Interest rate risk

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

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

### Foreign exchange risk

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

### Credit risk

The Company's exposure to credit risk relates to cash and cash equivalents, accounts receivable and other assets and arises from the possibility that the third party does not satisfy its contractual obligations. The Company minimizes its exposure to credit risk by keeping the majority of its cash and cash equivalents and other assets with major chartered banks. The Company performs continuous evaluation of its accounts receivable and records an allowance for doubtful accounts when determined necessary. The Company's maximum exposure to credit risk is equal to the carrying value of these financial assets being \$861,280 at 30 September 2016 (2015 - \$1,440,732). It is management's opinion that the level of credit risk is low due to the credit-worthiness of the counterparties involved and that its counterparties currently have the financial capacity to settle outstanding obligations in the normal course of business.

As of 30 September 2016, the Company recorded an allowance for doubtful accounts of \$155,951 (2015 - \$156,090) related to an amount due from a project operator that was greater than 90 days outstanding. Included in accounts receivable is an amount past due of \$78,372.

## Critical Accounting Estimates

The timely preparation of financial statements 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. 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.

The following paragraphs discuss management's most critical assumptions, estimates and judgments in the preparation of the consolidated financial statements.

#### *Key sources of estimation uncertainty*

Recorded amounts for impairment, depletion and depreciation of oil and gas properties, the provision for decommissioning liabilities and the recognition of deferred tax assets due to changes in expected future cash flows are based on estimates. These estimates include proved and probable reserves, production rates, future oil and natural gas prices, future development costs, remaining lives and periods of future benefits of the related assets and other relevant assumptions. The Company's reserve estimates are evaluated annually pursuant to the parameters and guidelines stipulated under *National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities*.

The calculation of decommissioning liabilities depends on estimates of current risk-free interest rates, future restoration and reclamation expenditures and the timing of those expenditures.

The valuation of accounts receivable is based on management's best estimate of the provision for doubtful accounts.

The amounts recorded relating to the fair value of stock options issued and fair values determined for share purchase warrants issued as part of a unit are based on estimates of the future volatility of the Company's share price, expected lives of the options or warrants, expected dividends, expected forfeiture rates, risk-free interest rates and other relevant assumptions.

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

The allocation between the common share and share purchase warrant components of the units issued is calculated using the fair value method whereby the fair value of each component is determined. Estimates are required to determine the fair value of each component.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. The availability of tax pools and other deductions are subject to audit and interpretation of taxation authorities.

## **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 2016. 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 statements 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, Strata-X 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**

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

IFRS 9 "Financial Instruments" ("IFRS 9") will replace IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple categories and measurement models in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single forward-looking "expected loss" impairment method to be used. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.

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

IFRS 16 "Leases" ("IFRS 16") will replace the previous lease standards, IAS 17 "Leases". IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model, and requires recognition of assets and liabilities for most leases. IFRS 16 is effective for periods beginning on or after January 1, 2019 with early adoption permitted.

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

### 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 2016. Both documents are available on SEDAR and the Company's website.

Tim Hoops

CEO, President and Managing Director

David Hettich

Chief Financial Officer