

STRATA-X ENERGY LTD.
(Unaudited)
Interim Condensed Consolidated Financial Statements
For the Six Months Ended 31 December 2016
(Expressed in U.S. Dollars)

STRATA-X ENERGY LTD.

(Unaudited)

Interim Condensed Consolidated Statement of Financial Position

31 December 2016

(Expressed in U.S. Dollars)

	31 December 2016	30 June 2016
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 1,358,342	\$ 744,042
Accounts receivable	99,885	78,156
Prepays and other	15,181	7,980
Total current assets	1,473,408	830,178
Other assets	247,234	247,234
Exploration and evaluation assets (Note 14)	31,000	-
Property and equipment (Note 5)	12,169,121	12,438,165
Total assets	\$ 13,920,763	\$ 13,515,577
LIABILITIES:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 359,443	\$ 427,344
Derivative warrants	-	886
Amounts due to related parties	85,000	157,002
Total current liabilities	444,443	585,232
Accrued liabilities	63,048	63,048
Decommissioning provisions (Note 6)	567,426	633,000
Total liabilities	1,074,917	1,281,280
SHAREHOLDERS' EQUITY:		
Share capital (Note 7)	37,048,440	35,968,547
Share based compensation reserve (Note 7)	1,513,667	1,471,989
Warrant reserve (Note 7)	1,009,486	1,009,486
Contributed surplus	22,066,879	22,066,879
Accumulated other comprehensive income	(835,217)	(821,967)
Deficit	(47,957,408)	(47,460,637)
Total shareholders' equity	12,845,846	12,234,297
Total liabilities and shareholders' equity	\$ 13,920,763	\$ 13,515,577

Going Concern (Note 1)

Commitments (Note 13)

Subsequent Events (Notes 1, 2, 7 and 14)

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
For the Three and Six Months Ended 31 December 2016 and 31 December 2015
(Expressed in U.S. Dollars)

	Three months ended 31 December		Six months ended 31 December	
	2016	2015	2016	2015
Oil and gas revenue, net of royalties	\$ 30,134	\$ 31,251	\$ 104,026	\$ 117,704
Expenses				
Production and operating	24,509	80,103	95,687	151,063
General and administrative	144,690	111,128	290,002	422,490
Depletion, depreciation and amortization (Note 5)	145,193	72,397	212,790	155,784
Impairment of oil and gas properties	-	677,000	-	677,000
Total expenses	<u>314,392</u>	<u>940,628</u>	<u>598,479</u>	<u>1,406,337</u>
Net operating loss	(284,258)	(909,377)	(494,453)	(1,288,633)
Gain on valuation of derivative liabilities	155	53,956	872	81,740
Gain on disposal of assets	-	63,000	-	63,000
Net finance income (expense)	<u>(3,328)</u>	<u>31,545</u>	<u>(3,190)</u>	<u>(2,833)</u>
Loss for the period	(287,431)	(760,876)	(496,771)	(1,146,726)
Other comprehensive income (loss)				
Exchange differences in translating foreign operations	<u>(12,103)</u>	<u>5,475</u>	<u>(13,251)</u>	<u>5,128</u>
Other comprehensive income (loss) for the period	<u>(12,103)</u>	<u>5,475</u>	<u>(13,251)</u>	<u>5,128</u>
Comprehensive loss	<u>\$ (299,534)</u>	<u>\$ (755,401)</u>	<u>\$ (510,022)</u>	<u>\$ (1,141,598)</u>
Loss per common share, basic and diluted (Note 8)	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.02)

See accompanying notes

STRATA-X ENERGY LTD.

(Unaudited)

Interim Condensed Consolidated Statement of Changes in Shareholders' Equity

For the Six Months Ended 31 December 2016 and 31 December 2015

(Expressed in U.S. Dollars)

	Share Capital	Share based Compensation Reserve	Warrants Reserve	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balance, 1 July 2016	\$ 35,968,547	\$ 1,471,989	\$ 1,009,486	\$ 22,066,879	\$ (821,967)	\$ (47,460,637)	\$ 12,234,297
Private placement, 2 December 2016 (Note 7)	320,262	-	-	-	-	-	320,262
Private placement, 22 December 2016 (Note 7)	759,631	-	-	-	-	-	759,631
Share-based compensation (Note 7)	-	41,678	-	-	-	-	41,678
Comprehensive loss	-	-	-	-	(13,251)	(496,771)	(510,022)
Balance, 31 December 2016	<u>\$ 37,048,440</u>	<u>\$ 1,513,667</u>	<u>\$ 1,009,486</u>	<u>\$ 22,066,879</u>	<u>\$ (835,218)</u>	<u>\$ (47,957,408)</u>	<u>\$ 12,845,846</u>
	Share Capital	Share based Compensation Reserve	Warrants Reserve	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	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	516,834	-	-	-	-	-	516,834
Private placement, 12 November 2015	392,112	-	-	-	-	-	392,112
Shares issued on debt conversion	125,413	-	-	-	-	-	125,413
Share-based compensation	-	63,064	-	-	-	-	63,064
Comprehensive income (loss)	-	-	-	-	5,128	(1,146,726)	(1,141,598)
Balance, 31 December 2015	<u>\$ 35,968,547</u>	<u>\$ 1,389,224</u>	<u>\$ 1,009,486</u>	<u>\$ 22,066,879</u>	<u>\$ (816,880)</u>	<u>\$ (46,165,624)</u>	<u>\$ 13,451,632</u>

See accompanying notes

STRATA-X ENERGY LTD.

(Unaudited)

Interim Condensed Consolidated Statement of Cash Flows

For the Six Months Ended 31 December 2016 and 31 December 2015

(Expressed in U.S. Dollars)

	Six months ended	
	31 December	
	2016	2015
Cash and cash equivalents provided by (used in):		
Operating activities:		
Loss for the period	\$ (496,771)	\$ (1,146,726)
Adjustments for:		
Depletion, depreciation and amortization	212,790	155,784
Net finance expense	4,426	4,907
Share-based compensation	41,678	63,064
Impairment of oil and gas properties	-	677,000
Unrealized loss on foreign exchange	5,116	-
Gain on disposal of assets	-	(63,000)
Gain on valuation of derivative liabilities	(872)	(81,740)
Operating cash flows before changes in non-cash working capital	(233,633)	(390,711)
Changes in non-cash working capital (Note 9)	(168,833)	(156,314)
Net cash used in operating activities:	(402,466)	(547,025)
Investing activities:		
Exploration and evaluation asset expenditures	(31,000)	(47,572)
Property and equipment expenditures	(13,746)	(554,968)
Proceeds from sale of oil and gas properties	-	200,000
Net cash used in investing activities:	(44,746)	(402,540)
Financing activities:		
Proceeds from issuance of common stock	1,132,322	1,027,595
Payment of share issuance costs	(52,429)	(39,788)
Net cash provided by financing activities:	1,079,893	987,807
Increase in cash and cash equivalents	632,681	38,242
Cash and cash equivalents, beginning of period	744,042	957,410
Effect of exchange rate translation	(18,381)	5,012
Cash and cash equivalents, end of period	\$ 1,358,342	\$ 1,000,664

See accompanying notes

STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 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 the Republic of Botswana in Africa. In October 2012, the Company announced a continuation into the province of British Columbia. The headquarters of the Company are located at 1550 Larimer Street, Suite #263, Denver, Colorado 80202.

Strata-X Energy, Ltd. is a publicly traded company on the TSX-Venture Exchange under the symbol "SXE.V", and on the Australian Securities Exchange under the symbol "ASX.SXA". Effective 23 November 2016, a 3 for 1 share consolidation was approved by the shareholders of the Company. These financial results are presented on the basis of the post-consolidated shares outstanding. All share, option, warrant and per share comparative numbers have been retroactively restated to reflect the share consolidation.

Subsequent to 31 December 2016, Rhino CBM (Proprietary) Limited ("Rhino") was incorporated in accordance with the Companies Act of the Republic of Botswana for the purpose of exploration and development of natural gas properties in Botswana, Africa (Note 14). Rhino is a wholly-owned subsidiary of Strata-X Australia PTY Ltd. (wholly owned subsidiary of the Company)

Going Concern (note 14)

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 \$496,771 for the six months ended 31 December 2016 (2015 - \$1,146,726) and has an accumulated deficit of \$47,957,408 as of 31 December 2016 (30 June 2016 - \$47,460,637). In addition, the Company generated negative operating cash flows before changes in non-cash working capital of \$233,633 for the six month period ended 31 December 2016 (2015 - \$390,711).

Management has been and continues to be active in seeking additional means to sustain the Company's financial position during the current economic environment including but not limited to investigating potential partnership, merger and/or joint venture opportunities 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 the current commodity price environment. During the eighteen months ended 31 December 2016, the Company was successful in completing three private placements for gross proceeds of approximately \$2,160,000. The proceeds of such offerings have been and will continue to be utilized primarily towards funding operations, general and administrative expenses and exploration and development activities. Management anticipates the need for further financing and/or equity capital to fund future exploration and development of the Company's various oil and gas properties.

STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 2016

(Expressed in U.S. Dollars)

1. Nature of Business and Going Concern (continued)

Going Concern (continued)

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 a going concern and has prepared the interim condensed consolidated financial statements on a going concern basis.

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 presentation 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 2016.

The policies applied in these interim condensed consolidated financial statements are based on IFRS issued and outstanding as of 13 February 2017, the date of the Board of Directors approval of the statements.

b) Reporting entity

The interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Strata-X, Inc. domiciled in the United States and Strata-X Australia PTY Ltd. domiciled in Queensland, Australia. As discussed in Note 1, subsequent to 31 December 2016, Rhino CBM (Proprietary) Limited was incorporated in the Republic of Botswana, Africa, and is a wholly-owned subsidiary of Strata-X, Australia PTY Ltd.

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 transactions, which were measured at fair value.

d) Functional and Presentation Currency

The interim condensed consolidated financial statements are presented in United States dollars. The parent Company's functional currency is the Canadian dollar. The functional currency of the Company's United States subsidiary and Australian subsidiary are United States and Australian dollars, respectively.

STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 2016

(Expressed in U.S. Dollars)

2. Basis of Presentation (continued)

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

The timely preparation of interim condensed 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 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 2016.

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 2016 annual consolidated 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.

4. Segment Reporting

The Company operates in one industry segment, being the oil and gas industry, in several geographic locations. As discussed in Note 1, the Company incorporated Rhino and began activity in the Republic of Botswana subsequent to 31 December 2016. As of 31 December 2016, no significant costs were incurred toward this activity to warrant a separate segmented financial presentation (Note 14). Segmented information in USD by geographic location is as follows:

As at and for the six months ended 31 December 2016:

	Canada	United States	Australia	Total
Revenues	\$-	\$104,026	\$-	\$104,026
Loss	\$(129,273)	\$(364,719)	\$(2,779)	\$(496,771)
Non-current Assets	-	\$12,416,355	\$31,000	\$12,447,355
Total Assets	\$14,908	\$12,833,168	\$1,072,687	\$13,920,763
Total Liabilities	\$19,057	\$1,017,626	\$38,234	\$1,074,917

STRATA-X ENERGY LTD.

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Notes to the Interim Condensed Consolidated Financial Statements

31 December 2016

(Expressed in U.S. Dollars)

5. Property and Equipment

Cost							
	Balance at 30 June 2015	Additions	Dispositions	Balance at 30 June 2016	Additions	Change in Decommissioning Provision	Balance at 31 December 2016
Oil and gas properties	\$ 12,582,358	\$ 763,455	\$ (248,590)	\$ 13,097,223	\$ 13,746	\$ (70,000)	\$ 13,040,969
Computer equipment and software	19,032	-	-	19,032	-	-	19,032
	<u>\$ 12,601,390</u>	<u>\$ 763,455</u>	<u>\$ (248,590)</u>	<u>\$ 13,116,255</u>	<u>\$ 13,746</u>	<u>\$ (70,000)</u>	<u>\$ 13,060,001</u>
Accumulated Depletion, Depreciation, Amortization and Impairment							
	Balance at 30 June 2015	Additions	Impairment Loss	Balance at 30 June 2016	Additions	Impairment Loss	Balance at 31 December 2016
Oil and gas properties	\$ 269,725	\$ 200,159	\$ 195,000	\$ 664,884	\$ 211,010	\$ -	\$ 875,894
Computer equipment and software	10,533	2,673	-	13,206	1,780	-	14,986
	<u>\$ 280,258</u>	<u>\$ 202,832</u>	<u>\$ 195,000</u>	<u>\$ 678,090</u>	<u>\$ 212,790</u>	<u>\$ -</u>	<u>\$ 890,880</u>
Net Book Value							
	Balance at 30 June 2016	Balance at 31 December 2016					
Oil and gas properties	\$ 12,432,339	\$ 12,165,075					
Computer equipment and software	5,826	4,046					
	<u>\$ 12,438,165</u>	<u>\$ 12,169,121</u>					

Capitalized general and administrative expenses that comprise additions to property and equipment above for the six months ended 31 December 2016 and the year ended 30 June 2016 are \$Nil and \$286,329, respectively.

Impairment

Impairment – 31 December 2016

The Company assesses many factors when determining if an impairment test should be performed. At 31 December 2016, the Company determined that no impairment indicators or reversal of impairment indicators existed for the Company's CGUs. Accordingly, no impairment tests were performed.

STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 2016

(Expressed in U.S. Dollars)

6. Decommissioning Provisions

	<u>31 December 2016</u>	<u>30 June 2016</u>
Balance, beginning of period	\$ 633,000	\$ 993,683
Change in discount rate and timing of cash flows	(70,000)	194,131
Additions	-	25,000
Dispositions	-	(592,185)
Accretion expense	4,426	12,371
	<u>567,426</u>	<u>633,000</u>
Balance, end of period	<u>\$ 567,426</u>	<u>\$ 633,000</u>

The Company has calculated the fair value of decommissioning provisions using a discount rate of 2.7% (30 June 2016 – 1.8%). The estimated undiscounted future cash flows to settle decommissioning provisions are \$800,000 (30 June 2016 - \$800,000) 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 change in the discount rate used for calculating the decommissioning liability as of 31 December 2016 resulted in a decrease to the liability and a corresponding decreases to property and equipment of \$70,000 for the six months ended 31 December 2016.

STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 2016

(Expressed in U.S. Dollars)

7. Share Capital

Issued and outstanding:

	Number	Amount
Balance at 30 June 2015	52,194,992	\$ 34,934,188
Private placement, 10 August 2015	3,436,750	556,622
Share issuance costs		(39,788)
Private placement, 12 November 2015	2,345,833	392,112
Shares issued on debt conversion	797,620	125,413
Balance at 30 June 2016 and 30 September 2016	58,775,195	35,968,547
Private placement, 2 December 2016	8,700,000	320,262
Private placement, 22 December 2016	22,350,000	812,060
Share issuance costs		(52,429)
	<u>89,825,195</u>	<u>\$ 37,048,440</u>

Share Consolidation

Effective 23 November 2016, the shareholders of the Company approved a 3 for 1 share consolidation. The exercise price of outstanding stock options and warrants was proportionately adjusted based upon the consolidation ratio. All share, option, warrant and per share amounts disclosed in these financial statements have been adjusted retroactively for the consolidation.

Common Stock Offerings

On 2 December 2016, the Company completed a private placement of 8,700,000 CDI, or common shares, as the first tranche of an overall capital raise. The second tranche closed on 22 December 2016 with the placement of an additional 22,350,000 CDI, or common shares. Gross proceeds of CDN\$1,519,888 (US\$1,132,322) were realized from the placements, and placement costs of CDN\$70,634 (US\$52,429) were incurred. Of the second tranche, two directors of the Company subscribed for a total of 7,000,000 CDI, or common shares for CDN\$342,647 (US\$254,336).

STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 2016

(Expressed in U.S. Dollars)

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

Activity related to the number of warrants outstanding and exercisable for the Company for the six months ended 31 December 2016 and the year ended 30 June 2016 is as follows:

	31 December 2016			30 June 2016		
	Number	Weighted Average Exercise Price	Currency	Number	Weighted Average Exercise Price	Currency
Balance, beginning of period	6,166,293	\$ 0.96		3,946,796	\$ 1.44	
Warrants issued in private placement 10 August 2015	-	-		1,718,375	0.36	AUD
Warrants issued in private placement 12 November 2015	-	-		1,172,917	0.36	AUD
Expiration of warrants	<u>(3,220,968)</u>	<u>1.50</u>		<u>(671,795)</u>	<u>1.20</u>	CDN
Balance, end of period	<u>2,945,325</u>	<u>\$ 0.38</u>		<u>6,166,293</u>	<u>\$ 0.96</u>	

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

Exercise Price	Currency	Number Outstanding	Weighted Average Contractual Life (years)
\$ 1.50	AUD	54,033	0.48
\$ 0.36	AUD	<u>2,891,292</u>	0.08
		<u>2,945,325</u>	

Subsequent to 31 December 2016, 2,891,292 warrants at an exercise price of AUD\$0.36 expired unexercised.

Subsequent to 31 December 2016, the Company also granted 3,881,250 warrants as placement fees related to the December 2016 common stock offerings. The warrants vest immediately with an exercise price of AUD\$0.07 per share and expire in 3 years from the date of grant.

STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 2016

(Expressed in U.S. Dollars)

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

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

	31 December 2016		30 June 2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	4,956,667	\$ 0.60	2,190,000	\$ 0.99
Granted	-	-	3,133,334	0.36
Expired	(16,667)	1.50	(366,667)	0.93
Outstanding, end of period	<u>4,940,000</u>	<u>\$ 0.59</u>	<u>4,956,667</u>	<u>\$ 0.60</u>
Exercisable, end of period	<u>3,406,666</u>	<u>\$ 0.70</u>	<u>2,510,834</u>	<u>\$ 0.78</u>

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Notes to the Interim Condensed Consolidated Financial Statements

31 December 2016

(Expressed in U.S. Dollars)

7. Share Capital (continued)

Stock Option Plan (continued)

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

Exercise Price	Currency	Number Outstanding	Number Exercisable	Weighted Average Contractual Life (years)
\$ 0.90	CDN	1,306,667	1,306,667	4.04
\$ 1.02	CDN	283,333	283,333	5.73
\$ 1.23	CDN	250,000	250,000	1.81
\$ 1.50	CDN	33,333	33,333	1.30
\$ 0.36	AUD	3,066,667	1,533,333	3.63
		<u>4,940,000</u>	<u>3,406,666</u>	

During the six months ended 31 December 2016, the Company expensed the fair value recognized for stock options of \$41,678 (31 December 2015 - \$63,064) as general and administrative costs with a corresponding adjustment to share based compensation reserve in shareholders' equity.

8. Loss per Common Share

The basic loss per common share is based on the weighted average number of common shares outstanding as disclosed on a post-consolidation basis for the three and six months ended 31 December 2016 and 31 December 2015 of 63,703,999 and 61,239,597, respectively (2015 – 57,271,293 and 55,685,720, respectively). All 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.

STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 2016

(Expressed in U.S. Dollars)

9. Supplemental Cash Flow Information

(a) Changes in non-cash working capital items:

	Six months ended 31 December	
	2016	2015
Accounts receivable	\$ (21,729)	\$ 34,698
Prepays and other	(7,201)	-
Accounts payable and accrued liabilities	(67,901)	(109,207)
Amounts paid to related parties	(72,002)	(81,805)
Change related to operating activities	<u>\$ (168,833)</u>	<u>\$ (156,314)</u>

Non-cash transactions excluded from the statements of cash flows (note 5, 6 and 7)

(b) Cash and cash equivalents is comprised of:

	31 December 2016	30 June 2016
Balances with banks in current accounts	\$ 1,056,094	\$ 92,010
Money market savings account	302,248	652,032
	<u>\$ 1,358,342</u>	<u>\$ 744,042</u>

(c) Net finance expense for the six months ended 31 December 2016 includes \$4,426 in accretion expense (note 6) (2015 - \$4,907) net of finance income of \$1,236 (2015 - \$2,074).

10. Related Party Transactions

The Company utilizes the services of an outside firm in which the majority owner of the firm is 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 \$4,100. During the six months ended 31 December 2016, the Company incurred approximately \$24,400 (2015 - \$31,800) in costs payable to the outside firm for accounting services. Approximately \$11,600 (2015 - \$25,800) is included in general and administrative expenses and \$12,800 (2015 - \$6,000) was invoiced to joint venture partners as general and administrative expense recovery and included in accounts receivable at 31 December 2016. At 31 December 2016, amounts owing and included in due to related parties is \$Nil (2015 - \$5,291).

STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 December 2016

(Expressed in U.S. Dollars)

11. Financial Instruments

Financial risk management

The Company's activities are exposed to a variety of financial risks: interest rate risk, market risk, credit risk, liquidity risk, commodity price risk and foreign exchange risk. The Company's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Company's financial results. Risk management is carried out by financial management in conjunction with overall corporate governance. There were no changes to the Company's risk management policies or processes during the six month period ended 31 December 2016.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. As at 31 December 2016, the Company had a positive working capital of \$1,028,965. The commodity price environment experienced during 2016 has 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 the current price environment. As discussed in Note 1, management continues to seek additional means to sustain the Company's financial position and liquidity including but not limited to investigating potential partnership, merger and/or joint venture opportunities and acquiring and disposing of oil and natural gas properties and, as circumstances and conditions dictate, the successful completion of further private placements. As discussed in Note 7, during the six months ended 31 December 2016, the Company was successful in completing a private placement generating CDN\$1,449,254 (US\$1,079,893) after placement costs. 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.

The Company's non-derivative financial liabilities on the statement of financial position consist of the following contractual maturities:

	Less than a year	After 5 years
Accounts payable and accrued liabilities	\$ 359,443	\$ -
Amounts due to related parties	85,000	-
Accrued liabilities	-	63,048
	<u>\$ 444,443</u>	<u>\$ 63,048</u>

The amounts recorded for accrued liabilities relate to amounts received from joint interest partners for their share of future remediation of oil and natural gas interests.

The Company is also subject to commitments as disclosed in Note 13.

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11. Financial Instruments (continued)

Credit risk

The Company's exposure to credit risk relates to cash and cash equivalents, accounts receivables 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 with major chartered banks. The Company performs continuous evaluation of its accounts receivables and records an allowance for doubtful accounts when determined necessary. The Company's maximum exposure to credit risk is equal to the carrying value of these financial assets being \$1,705,461 at 31 December 2016 (30 June 2016 - \$1,069,432). 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 31 December 2016, the Company recorded an allowance for doubtful accounts of \$156,090 (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 \$67,621 (2015 - \$78,372).

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, foreign exchange risk and commodity price risk.

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 consolidated financial statements. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

As at 31 December 2016, \$18,335 of cash and cash equivalents, \$1,708 of accounts receivable and \$25,619 of accounts payable are exposed to the Canadian dollar. As at 31 December 2016, \$1,436,486 of cash and cash equivalents, \$10,000 of prepaids and \$53,092 of accounts payable are exposed to the Australian dollar. Management does not believe this risk is significant and the sensitivity to fluctuations in foreign exchange rate changes is minimal.

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12. Capital Management

The Company's objective when managing capital is to progress the development of natural gas properties under Rhino through maintaining adequate cash resources to support its planned activities through the prudent deployment of capital. As noted above, the Company continues to focus on activities that represent the best, and highest use of available capital. The Company includes shareholders' equity in the definition of capital.

In managing capital, the Company estimates its future cash requirements by preparing a budget. The budget establishes the activities for the upcoming year and estimates the costs associated with these activities.

Historically, funding for the Company's plan was primarily managed through the issuance of additional common shares and through its commercial activities. There are no assurances that funds will be made available to the Company when required. There were no changes in the Company's approach to capital management during the period.

The Company is not subject to externally imposed capital requirements.

Total capital managed is as follows:

	<u>31 December 2016</u>	<u>30 June 2016</u>
Shareholders' equity	<u>\$ 12,845,846</u>	<u>\$ 12,234,297</u>

Total capital managed increased for the six months ended 31 December 2016 due to the proceeds from the private placement activity in December 2016, offset by an overall use of cash in operating activities for the period.

13. Commitments

The Company entered into a rental agreement for office premises to 31 October 2017 for a total remaining obligation of approximately \$25,000 excluding operating costs.

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14. Subsequent Events

Subsequent to 31 December 2016, Rhino CBM (Proprietary) Limited ("Rhino") was incorporated in accordance with the Companies Act of the Republic of Botswana for the purpose of facilitating a coal seam gas ("CSG") exploration and development project (Note 1). In December 2016, the Company entered into a farm-in agreement ("Agreement") with an arms-length Company ("Farmco") for a 3 stage farm-in over an expected term of 3 years to earn up to 75% of the Serowe CSG Project located on the Kalahari Basin CSG Fairway in Botswana, Africa. The Company has completed all conditions in order to commence stage 1 of the farm-in with the exception of transfer of the tenements from Farmco to Rhino. On transfer of the tenements to Rhino, Rhino will issue ordinary shares of Rhino ("Rhino Shares") to Farmco whereby Rhino will hold 75% of the Rhino Shares and Farmco will hold 25% of the Rhino Shares. The total Rhino Shares to be issued to Farmco will be equivalent to the estimated fair value of the tenements on the date of transfer. Rhino has agreed to use all reasonable endeavors to complete Stage 1 of the Agreement one year from the date of transfer of the tenements and will provide all necessary funding and resources. Furthermore, if Stage 1 is not completed by the Stage 1 Milestone Date, Rhino has an option to request an extension from Farmco. Furthermore, once Stage 1 is completed, Rhino earns the right to the Stage 1 earned interest being 25% and Rhino will have the option to begin Stage 2 and Stage 3 thereafter. Stage 1 of the Farm-in involves Rhino conducting exploration to obtain contingent resources certification comprising:

- Conducting desorption tests of two existing core wells; and
- The drilling of one completion and production test well.

Management estimates the costs to complete Stage 1 of the Farm-in to be approximately \$AUD \$1,300,000. Under the agreement Rhino will be the operator of the Farm-in and Farmco and Rhino have agreed to negotiate and enter into a joint operating agreement for the development of the Farmin prior to the completion of Stage 1.

The Agreement may be terminated at any time without penalty, subject to the transfer of the tenements back to Farmco, with each party responsible for their share of costs incurred to date of termination.

The Company recorded \$31,000 of license acquisition costs as exploration and evaluation assets at 31 December 2016.