



# STRATA-X

## ENERGY

### Management Discussion and Analysis

For Year Ended  
30 June 2017

#### Quarter Highlights

- Strata-X is reviewing project opportunities that will be accretive and complimentary to management's skillset to build shareholder value.
- Working with Republic of Botswana officials to develop a long term Environmental Management Plan to ensure the ability to move forward effectively.
- Retained local Botswana exploration and regulatory experts.
- Established Botswana operating subsidiary, transferred prospecting license to SXE operations.

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 Hoops** –  
President and Managing Director

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

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

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

## Company Management

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Chief Financial Officer

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Duncan Cornish – Australia

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## Disclaimer

The following discussion and analysis (the "MD&A") for Strata-X Energy Ltd. (hereinafter, "Strata-X Energy", "Company" or "Strata-X") prepared as of 20 September 2017, should be read together with the consolidated financial statements for the year ending 30 June 2017 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 21 September 2017 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 21 September 2017.

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.

## Description of Business

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

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

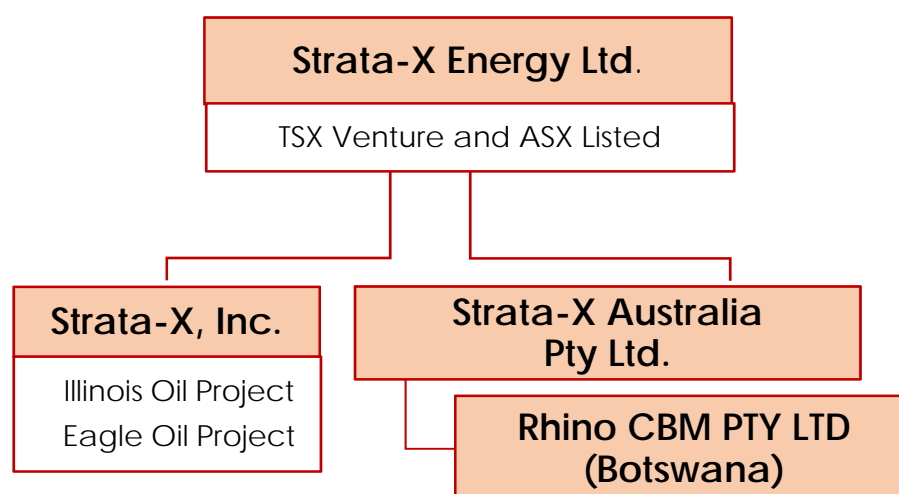
In May 2012, the Company formed a wholly-owned Australian subsidiary, Strata-X Australia Pty. Ltd., for the purpose of acquiring, exploring and developing oil and gas properties in Australia.

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.

In January 2017, 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 known to the Company as the 'Serowe Gas Project' or 'Serowe CSG Project'.

The corporate structure of the Company is as follows:



## Corporate Events

The Company established a new operating subsidiary in the Republic of Botswana called Rhino CBM (PTY) Ltd. The purpose of the subsidiary is to hold the prospecting licenses and operate within the Republic of Botswana on the Serowe CSG Project.

## Company Outlook

In addition to the recently sourced Serowe CSG Project, Strata-X continues to focus on projects in areas where drilling and operational costs are low and margins are sufficient in the current energy market. The Illinois Basin still fits this model of low costs and good margins. Strata-X owns approximately 10,401 acres with 2P reserves of 1.419 million barrels net to Strata-X<sup>(1)</sup>. The Company plans to restart efforts to bring projects forward in the Illinois Basin over the next year as market conditions allow. Consistent with the above approach, the Company is continuously reviewing project opportunities that will be accretive and complimentary to management's skillset and build shareholder value.

On the Serowe Gas Project, the Company farmed into approximately 273,000 acres in the Kalahari Basin and has the opportunity to achieve a 75% working interest in the Project. The Company established a Republic of Botswana operating subsidiary, Rhino CBM Pty Ltd. (100% owned) and is now the registered holder of the exploration permits. Rhino will be the operator of the Serowe CSG Project. The previously announced operations to re-enter an existing wellbore on the Serowe CSG Project to core the coal seam gas resource have been delayed as the company reviews its environmental regulatory options in the Republic of Botswana. It is the goal of the Company to ensure it can effectively delineate the resource within the two year time period allotted by its tenement while maximizing shareholder value. The Company is confident that a positive outcome will result from this review.

The Company is contracting with vendors and reviewing drilling proposals for its first cored well operation on the Serowe CSG Project. These operations should commence upon successful completion of an Environmental Management Plan. Surface access rights and other approvals for this operation have been acquired from the necessary authorities. After the results of the core hole have been evaluated, the Company intends on drilling, coring and production testing an additional well to evaluate the prospectivity of the Serowe Gas Fairway.

For the quarter ended 30 June 2017, the Company invested ~USD\$14,000 in the Illinois Basin Oil Project, principally on project maintenance and ~USD\$23,000 into the Serowe CSG Project mainly on farm-in expenses and acquiring various approvals for its entity Rhino CBM.

(1) Information originally appears in the Company's NI 51-101 Report for FYE 2017 which is available for review at [www.strata-x.com](http://www.strata-x.com)

## Production Summary

For the three months ended 30 June 2017, oil production to the Company's net revenue interest was down 22% to 424 barrels (bbls) compared to 543 bbls for the three months ended 30 June 2016. The decrease in oil production is attributable to the Burkett 5-34HOR's natural production decline. For each of the three month periods ended 30 June 2017 and 30 June 2016, no natural gas was sold.

For the twelve months ended 30 June 2017, oil production to the Company's net revenue interest was up 10% to 3,419 bbls compared to 3,110 bbls for the twelve months ended 30 June 2016. The Burkett 5-34HOR was substantially the only well on production for the Company during the period with the exception of insignificant production from minor vertical wells. For each of the twelve month periods ended 30 June 2017 and 30 June 2016, no natural gas was sold.

Total revenue for the three months ended 30 June 2017 was \$26,996 compared to \$23,333 for the three months ended 30 June 2016, an increase of 16%. The increase in revenue is attributable an increase in farmout sales. The average daily production for the Company during the three months ended 30 June 2017 was 4.7 bbls. of oil at an average realized sale price of \$36.74 per barrel of oil. Royalties per barrel of oil averaged \$7.20 (~16%), with production operating expenses for the period of \$101.23 per barrel of oil. The netback received by the Company per barrel of oil sold during the three months ended 30 June 2017 was (\$69.70). The high lease operating cost per barrel of oil, is attributable to expenditures made on non-producing assets and minor workover operations on producing wells.

Total revenue for the 12 months ended 30 June 2017 was \$167,264 compared to \$134,243 for the twelve months ended 30 June 2016 an increase of 25%. This increase is attributable to higher production volumes and an increase in the price of crude oil. The average daily production for the Company during the twelve months ended 30 June 2017 was 9.3 bbls of oil at an average realized sale price of \$48.92 per barrel of oil. Royalties per barrel of oil averaged \$7.05(15%), with production operating expenses for the period of \$38.21 per barrel of oil. The netback received by the Company per barrel of oil sold during the twelve months ended 30 June 2017 was \$2.75.

## Tenements

Project	Location	% Interest	Net Acres
Serowe CSG <sup>(1)</sup>	R. Botswana	75%	204,750
Illinois Oil	Illinois, USA	100%	10,401
Eagle	California, USA	23.9%	770
<b>Total</b>			<b>215,921</b>

(1) Prospecting Licenses % interest subject to fulfillment of certain terms, conditions and work programs as stated in the governing Farm-in agreement dated Dec 2016 between MPE (ASX:MPE) and SXE.

During the quarter ended 30 June 2017, 7,039 net acres were dropped on the Illinois Oil Project and the Company ceased reporting on the Vallceitos Project which is no longer being pursued. In the remainder of 2017, the Company expects further lease reductions of approximately 8,000 net acres on the Illinois Oil Project.

# Serowe Gas Project

## Features of Serowe Farm-in – Republic of Botswana

- *Earn up to 75% of the Serowe Gas Project in the Kalahari Basin CSG Fairway in Botswana, Africa.*
- *Strata-X will operate the Project covering two licenses spanning 273,000 acres.*
- *The Project has a mean estimate of 1.045 Tcf (1075 PJ) of recoverable prospective resource net to Strata-X's interest. <sup>(1)</sup>*
- *There are immediate and expanding domestic gas markets in southern Africa.*
- *Botswana rated as an attractive investment destination.*

**ASX disclosure note - 5.28.2 - The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.**

In November 2016, SXE executed a Farm-in Agreement with Magnum Gas and Power (ASX:MPE) for a staged farm-in to earn up to 75% of the Serowe Gas Project located on the Kalahari Basin CSG Fairway in Botswana, Africa. Strata-X will operate the Project which spans approximately 273,000 acres and has certified 1.045 Tcf (1075PJ) of recoverable Prospective Resources.<sup>(1)</sup>

Mr. Ron Prefontaine will be assuming the executive leadership of the Serowe Project. Mr. Prefontaine has extensive management experience in CSG as an executive director of Arrow Energy and as co founder and Managing Director of Bow Energy - companies which were taken over for A\$3.3 billion and A\$550 million respectively. Mr. Prefontaine is also a co-founder and principal owner of private, Brisbane-based, WellPro which has developed CSG production optimization equipment and methods. The Company's plan is to combine geology/engineering skills with Wellpro production optimization technology to successfully develop the Serowe Gas Project.

The Republic of Botswana is one of the oldest democracies in Africa, becoming independent in 1966. The rule of law is well established and long-standing, and Botswana is recognized as having the lowest rate of corruption in Africa. The geography of the project area is predominantly flat with good road access. These factors, combined with a 3% government royalty (there is also a 3% private royalty payable to parties associated with MPE) on produced gas, make Botswana one of the more favorable economic settings in the world for natural resource development. The growing demand for power in Botswana and neighboring countries offers immediate and expanding domestic gas markets.

<sup>(1)</sup> *Prospective Resources figures are from an audit report prepared by MHA Petroleum Consultant dated 26 October 2016 following their audit of the available technical data including the geological interpretation, information from relevant nearby wells, analogous reservoirs and the proposed program for the Project, prepared and presented to MHA by Strata-X. There is no certainty that stated resources will be commercially viable to produce any portion of the resources. A high level of uncertainty exists with the Prospective resources given the lack of historical drilling, available data and other productivity factors that limit the economic viability of coal seam gas deposits. The Report reviewed only Prospective Resources as the project is not sufficiently developed to assign Contingent Resources or additional Petroleum Reserves to it. Stated Prospective Resource figures are Best Estimate – undiscovered natural gas quantities and net of a 6% royalty and are shown at a 75% working interest in the Project that Strata-X will only earn upon completing the farm-in program. The total costs associated with establishing the commerciality of this project are unknown at this time given the early stage of the Project's development. For additional information see Strata-X November 2016 Presentation*



The Farm-in is in three stages and the Company has up to 3 years to complete all stages, with each stage earning the Company a 25% working interest in the Serowe Gas Project. The first stage started in the first quarter of 2017 and will involve the desorption analysis of 3 CSG core wells as required for continued gas resource certification. One well has been cored previously by MPE and only needs final analysis to be completed, a second has been top holed and will be re-entered to core the coal section and the third will be a new core well. In addition, one well will be completed and production tested. Stages 2 and 3 are optional and the decision to proceed to these stages will be based on the results of the prior stages. The final 25% (third stage) working interest will be earned when 97.5 Bcf (100 PJ) of 2P reserves are certified for the project.

The Serowe Gas Project is an underexplored and underdeveloped opportunity, covering the coal seam gas deposit fairway in the Republic of Botswana. The economies of the Republic of Botswana and its regional neighbors are rapidly growing with energy demand poised to skyrocket. The Republic has set goals for promoting the exploration and development of natural gas resources in the county to meet these demands.

Recently, the Company established Rhino CBM Pty Ltd. (100% owned) and is now the registered holder of the exploration permits after they were transferred to it from MPE. Rhino will be the operator of the Serowe CSG Project. The previously announced operations to re-enter an existing wellbore on the Serowe CSG Project to core the coal seam gas resource have been delayed as the Company reviews its environmental regulatory options in the Republic of Botswana. It is the goal of the Company to ensure it can effectively delineate the resource within the two year time period allotted by its tenement while maximizing shareholder value. The Company is confident that a positive outcome will result from this review.

The permits Strata-X acquired are in an area where others from South Africa and Australia are also exploring the CSG fairway. The Company's acreage position is near Tlou Energy's (ASX:TLOU) CSG Project where it has announced independently certified contingent gas resources consisting of 3.3 TCF of 3C, 239 BCF of 2C and 5 BCF of 1C. TLOU announced on July 12, 2017 that it has applied for the first CBM Mining License in Botswana indicating that their project is advancing towards commercial production.<sup>(2)</sup>

(1) *Prospective Resources figures are from an audit report prepared by MHA Petroleum Consultant dated 26 October 2016 following their audit of the available technical data including the geological interpretation, information from relevant nearby wells, analogous reservoirs and the proposed program for the Project, prepared and presented to MHA by Strata-X. There is no certainty that stated resources will be commercially viable to produce any portion of the resources. A high level of uncertainty exists with the Prospective resources given the lack of historical drilling, available data and other productivity factors that limit the economic viability of coal seam gas deposits. The Report reviewed only Prospective Resources as the project is not sufficiently developed to assign Contingent Resources or additional Petroleum Reserves to it. Stated Prospective Resource figures are Best Estimate – undiscovered natural gas quantities and net of a 6% royalty and are shown at a 75% working interest in the Project that Strata-X will only earn upon completing the farm-in program. The total costs associated with establishing the commerciality of this project are unknown at this time given the early stage of the Project's development. For additional information see Strata-X November 2016 Presentation*

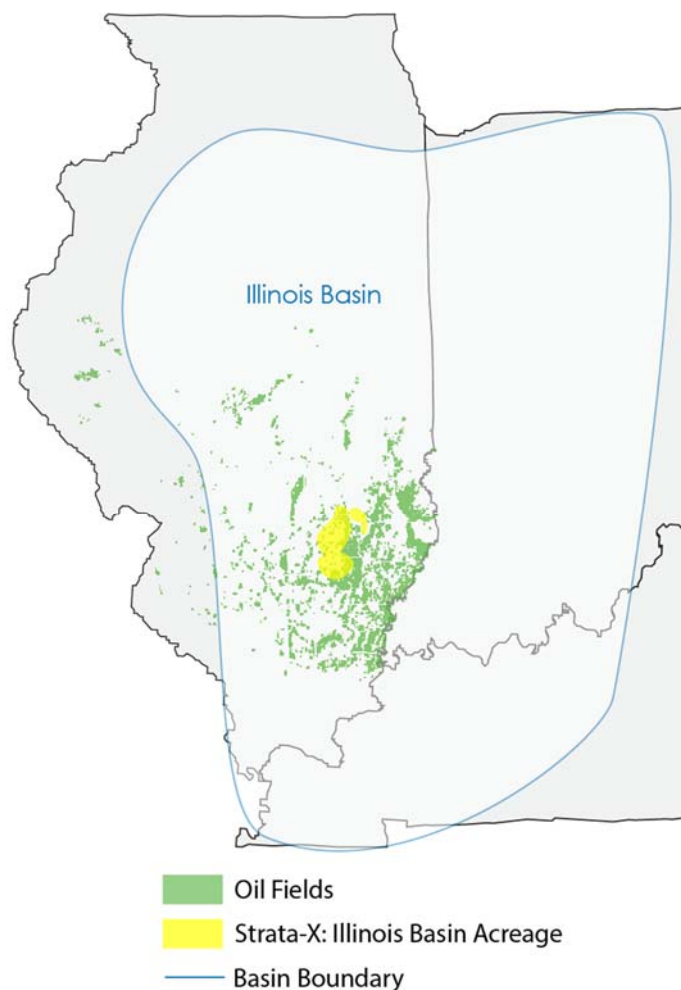
(2) *Per Tlou website and ASX announcements.*

## Illinois Basin Oil Project

- › Illinois Basin, Illinois: 10,401 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 10,401 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 10,401 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), accessed 10/1/2014.

## Unconventional Horizontal Project

Illinois Basin Oil Project

- › Since production began, the 5-34HOR well has produced approximately 19,500 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.

### 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

### Lingle Formation

In June 2013, Strata-X acquired all necessary regulatory approvals to drill the Burkett 5-34HOR well, which was designed as a horizontal test of the targeted Devonian Lingle formation, and spudded the well on 10 July 2013. It was designed to be drilled in two stages. First, the Company drilled a vertical hole to the top of the target formation and then cored approximately 60 feet of the formation. Next, the Company plugged back the vertical section of the well and drilled the horizontal leg. The vertical portion of the well reached a total depth of 4,730

feet. The Company successfully cored 59 feet of the target formation and logged the vertical section of the well. Initial core analysis indicated two oil zones in the dolomite reservoir with a total net thickness of 10.5 feet over a 30-foot interval.

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

A limited production test began in July 2014. Upon final production facility construction in August 2014, the well was placed into full production testing. After monitoring the well performance, the production facilities were upgraded in October 2014. Thereafter the well “cleaned up” and reached a peak production rate of 310 bbl/d and 300+Mcf/d.

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.

## Vertical Well Project

### Illinois Basin Oil Project

- › 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. Blue Spruce #1 was placed on production until April 2015 when it was determined its production would cease until additional facilities were installed to maintain pressure in the field via water flooding.

In a report dated 30 June 2017, 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\$39.5 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 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.

*(1) Information originally appeared in the Company’s FYE 2017 51-101 Reserve Report available for viewing at [www.strata-x.com](http://www.strata-x.com)*

## Other Projects

### **Eagle Project**

Kings County, California, USA

The Company now has a 23.9% working interest in 3,221 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.

## Quarter Results

### Summary of Annual Results

Historical annual information is as follows:

	30 June 2017 (IFRS)	30 June 2016 (IFRS)	30 June 2015 (IFRS)
Revenue, net of royalties	\$167,264	\$134,243	\$961,023
Expenses	\$(1,111,987)	\$(974,269)	\$(2,274,808)
Other income and net finance expense	\$253,571	\$710,195	\$494,944
Impairment of oil and gas properties	\$(15,000)	\$(2,311,908)	\$(12,425,552)
Net Loss	\$(706,152)	\$(2,441,739)	\$(13,244,393)
Basic & diluted net loss per share (1)	\$(0.01)	\$(0.04)	\$(0.26)
Assets	\$13,451,366	\$13,515,577	\$15,541,506
Liabilities	\$783,271	\$1,281,280	\$2,045,699

(1) Basic and diluted net loss per share has been retrospectively restated to reflect the 3:1 share consolidation that was effective 23 November 2016.

Historical quarterly information is as follows:

	30 June 2017	31 March 2017	31 Dec 2016	30 Sep 2016	30 June 2016	31 March 2016	31 Dec 2015	30 Sep 2015
Total Assets	\$13,451,366	\$13,718,890	\$13,889,763	\$13,242,254	\$13,515,577	\$13,941,392	\$15,229,228	\$16,026,750
Revenue, net of Royalties	\$26,996	\$36,242	\$30,134	\$73,892	\$10,932	\$5,607	\$31,251	\$86,453
Net Income (Loss)	\$(35,603)	\$(173,778)	\$(287,431)	\$(209,340)	\$(25,310)	\$(1,269,703)	\$(760,876)	\$(385,850)
Basic & diluted net income (loss) per share (1)	\$(0.01)	\$(0.00)	\$(0.00)	\$0.00	\$0.00	\$(0.02)	\$(0.01)	\$(0.01)

(1) Basic and diluted net loss per share has been retrospectively restated to reflect the 3:1 share consolidation that was effective 23 November 2016.

### Results of Operations

As noted above, total revenue for the quarter ended 30 June 2017 was \$26,996 compared to \$10,932 for the quarter ended 30 June 2016. The increase is due to increased oil production farm-out sales.

Production and exploration expenses for the quarter ended 30 June 2017 were \$42,819 compared to \$24,895 for the same quarter last year, consistent with the increase in oil and gas revenues over the same period.

General and administrative expenses for the quarter ended 30 June 2017 increased by \$144,443 to \$170,352 from \$25,909 for the same quarter last year primarily due to the capitalization of certain stock based compensation amounts for the quarter ended 30 June 2016 resulting in a reduction of general and administrative expenses for the quarter.

### Liquidity and Capital Resources

The 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 \$(706,152) for the year ended 30 June 2017.

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 moving forward in Stage 1 of the CSG Project.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due depends on the success of the Company's exploration and development of its oil and gas properties, as well as the ability of the Company to obtain additional financing or equity to fund the exploration and development of those oil and gas properties. As discussed in the notes to the consolidated financial statements, during the twenty-four months ended 30 June 2017, the Company was successful in completing three private placements for gross proceeds of approximately \$2,160,000. As a result of these equity offerings, the Company had a working capital surplus of approximately \$840,300 as at 30 June 2017. 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 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	\$10,000	\$10,000	\$Nil	\$Nil	\$Nil

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. 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 have been adjusted retroactively for the consolidation. As at 30 June 2017 and as at the date hereof, a total of 89,825,208 common shares and CDIs were issued and outstanding with a resulting share capital of \$36,955,438. The Company has 3,881,250 warrants and 4,940,000 stock options outstanding with 4,173,333 options exercisable as of 30 June 2017 and as at the date hereof.

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 the majority owner of which 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 year ended 30 June 2017, the Company incurred approximately \$48,800 (2016 - \$63,600) in costs with the outside firm for accounting services.

### Summary of Significant Accounting Policies

The notes to the Company’s 30 June 2017 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 2017 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 year ended 30 June 2017.



## 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 and concentration 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 \$1,283,012 at 30 June 2017 (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 30 June 2017, the Company recorded an allowance for doubtful accounts of \$156,090 (2016 - \$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 \$39,528.

## 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 2017. 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 new standards on the Company's consolidated financial statements as disclosed in the Company's annual consolidated financial statements at 30 June 2017 and does not expect a significant change as a result of adoption.

## Other Company Information

Additional disclosure information for Strata-X Energy Ltd. can be located in its latest Annual Management Discussion and Analysis, Annual Information Form and Audited Financials for the year ended 30 June 2017. All documents are available on SEDAR and the Company's website.

Tim Hoops

CEO, President and Managing Director

David Hettich

Chief Financial Officer