



# STRATA-X ENERGY

## Quarterly Activities Report

For Quarter Ended  
31 December 2017

### Directors

**Mr. Ron Prefontaine –**

Chairman of the Board of Directors

**Mr. Tim Hoops –**

President and Managing Director

**Mr. Dennis Nerland –**

Non Executive Director

**Mr. Tim Bradley –**

Non Executive Director

**Mr. Bohdan (Don) Romaniuk –**

Non Executive Director

**Mr. Greg Hancock –**

Non Executive Director

### Company Management

**Mr. David Hettich –**

Chief Financial Officer

### Company Secretaries

Shaun Maskerine – Canada

Duncan Cornish – Australia

### Share Registries

#### Canada

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Suite 600, 530 – 8<sup>th</sup> Ave SW  
Calgary, Alberta, Canada T2P 3S8  
Tel: +1-403-267-6800

#### Australia

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Level 15 ANZ Building  
324 Queen Street  
Brisbane QLD 4000, Australia  
Tel: 1300-554-474

### Stock Exchanges

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

### Auditor

Collins Barrow Calgary LLP  
1400, 777 8<sup>th</sup> Ave SW  
Calgary, Alberta, Canada T2P 3R5

### Solicitors

#### Canada

Armstrong Simpson  
Suite 2080 – 777 Hornby Street  
Vancouver, British Columbia  
Canada, V6Z 1S4

#### Australia

HopgoodGanim  
Level 8, Waterfront Place  
1 Eagle Street  
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### Head Office

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### Canadian Office

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c/o Corporate Administration  
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Level 10, 110 Mary Street  
Brisbane QLD 4000, Australia

Certain statements in this report regarding future expectations and plans of the Company may be regarded as "forward-looking statements". Although the Company believes that its expectations and plans are based upon reasonable assumptions, it can give no assurance that its goals will be met. Actual results may vary significantly from those anticipated due to many factors, including oil and gas prices, operating hazards, drilling risks, environmental risks and uncertainties in interpreting engineering and other data relating to oil and gas reservoirs, as well as other risks.

## Quarter Highlights

- SXE pre-empts third party offer of MPE's 25% interest in the Serowe Gas Project resulting in 100% control of Project for SXE.
- Allows SXE to leverage project and minimize shareholder dilution.
- Serowe CSG Project is a 273,000 acre, 1.4Tcf Prospective Resource play in the heart of the Kalahari Basin CSG Fairway.
- Pre-emption grants SXE full operational control without restrictive Farm-in agreement.
- Working with Republic of Botswana officials to develop a long term Environmental Management Plan to insure ability to move forward effectively.

*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.*

## Serowe Gas Project

### Features of Serowe Gas Project – Republic of Botswana

- **Active 2018 exploration programme planned.**
- **Post pre-emption closing, Strata-X will own 100% 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 1.4 Tcf (post pre-emption) 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.**

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. As announced on 2 January 2018, the Company has pre-empted a third party offer to buy out MPE's 25% interest in the 273,000 acre, 1.4Tcf Prospective Resource<sup>(1)</sup>, Serowe Gas Project ("Serowe"). Strata-X elected to pre-empt the offer as it gives the Company flexibility in developing the resources outside of a restrictive farm-in agreement and grants the Company greater optionality to use the value in the Serowe tenement in lieu of shareholder dilution. The Serowe project is located in the Kalahari Basin CSG fairway, and offsets tenements of ASX peer TLOU (ASX:TOU). Strata-X currently holds the tenements through its Republic of Botswana subsidiary, Rhino CBM PTY LTD.

The Company expects the final pre-emption agreements will to be executed by the end of the first quarter of 2018. During this time, the Company will initiate environmental surveys to complete an Environmental Management Plan ("EMP") for its 2018-2019 drilling and testing programme. Upon concluding the EMP, the Company will move forward with an active drilling and testing programme.

To offset pre-emption costs of buying-out MPE, Strata-X is actively engaged in farm-out discussions with third parties to sell a non-operated position in the tenements which should defray the cost of pre-empting and a portion of the 2018 exploration programme. Any arrangements that the Company enters will preserve its rights to develop the resource as operator, granting Strata-X the ability to control timing and development methods.

The pre-emption offer made by Strata-X will be subject to similar terms and conditions as that made by the third party seeking MPE's 25% interest in Rhino CBM PTY LTD. The agreement will call for an immediate deposit of AUD\$25,000 to MPE along with execution of the formal Purchase and Sale Agreement ("PSA") by the end of February 2018. Upon execution of a PSA and Strata-X's satisfaction of several closing conditions, Strata-X will pay MPE AUD\$125,000 in cash and grant a 3.5% overriding royalty interest in the tenements net to MPE's 25% bought out ownership. Thereafter, Strata-X will deliver to MPE, AUD\$200,000 within 60 days of closing the PSA along with another AUD\$200,000 within 135 days of closing the PSA. The PSA, which has yet to be drafted, will include customary warranties, covenants, terms, and conditions.

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.

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.

(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 100% working interest in the Project that Strata-X will only earn upon completing the Pre-Emption. 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*

## Company Outlook

An active 2018 exploration programme is planned for the Serowe Gas Project, where the Company recently pre-empted a third-party offer and now will own 100% of the 273,000-acre project in the Kalahari Basin. The 1.4 Tcf (post pre-emption) Prospective Resource net to Strata-X lies in the heart of the Kalahari CSG Fairway, and directly offsets projects approved for commercial CSG development. This asset was undeveloped for much of 2017, as the Company worked with Republic of Botswana officials to lay out an exploration plan and framework for an Environmental Management Plan (EMP) to ensure it could effectively delineate the resource within the two-year time period allotted by its tenement while maximizing shareholder value. The Company is confident of a positive outcome with respect to its EMP.

The Serowe Gas Project will be the growth driver for the Company in 2018 as it executes on a staged exploration plan to delineate and prove the CSG resource. The initial focus of the Company's 2018 exploration programme will be to production test direct offset areas, where ASX listed peers have converted more than 3 TCF of prospective resources into contingent resources. Along with the offset testing, Strata-X will explore a sizeable position it holds in the North-Central portion of the Kalahari Basin CSG Fairway, where previous core holes identified thicker potentially viable coal stems.

During the exploration programme, the Company will be seeking commercial market opportunities to sell the CSG resource within Botswana. The Republic of Botswana is moving to generate more electricity from clean resources like natural gas, along with searching for alternatives to coal and the widespread use of expensive imported diesel fuel. Along these lines, the initial market opportunities for the Company's natural gas will be gas-to-electric power plants and diesel-to-CNG conversions at large industrial facilities.

Strata-X continues to review its development options in the Illinois Basin where the Company has 2P reserves of 1.282 million barrels net (1). The Company plans to either bring projects forward in the Illinois Basin over the next year or seek to farm out the opportunities providing Strata-X shareholders upside value. 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.

For the quarter ended 31 December 2017, the Company invested ~USD\$4,000 in the Illinois Basin Oil Project, principally on project maintenance and ~USD\$39,700 into the Serowe CSG Project mainly on legal expenses related to the pre-emption offer and in-country consulting.

(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)

## Tenements

Project	Location	% Interest	Net Acres
Serowe CSG <sup>(1)</sup>	R. Botswana	75%	204,750
Illinois Oil	Illinois, USA	100%	2,401
Eagle	California, USA	23.9%	770
<b>Total</b>			<b>207,921</b>

During the quarter ended 31 December 2017, 7,850 net acres were dropped from the Illinois Oil Project. In the first half of 2018, the Company expects further lease reductions of approximately 934 net acres on the Illinois Oil Project.

(1) Prospecting Licenses shown at 75% pending final execution of a PSA with MPE for the pre-empted rights.

## Production Summary

For the six months ended 31 December 2017, oil production to the Company's net revenue interest was down 87% to 269 barrels (bbls) compared to 2,430 bbls for the six months ended 31 December 2016. The decrease in oil production is attributable to limited production on the Burkett 5-34HOR, which was offline for the majority of the quarter due to a reduction in wellbore fluid entry which complicates producing the well with the current downhole electric pump. The Company is reviewing its pumping options for a long-term solution to the Burkett 5-34HOR. For each of the three-month periods ended 31 December 2017 and 31 December 2016, no natural gas was sold.

Total revenue for the six months ended 31 December 2017 was \$12,778 compared to \$101,338 for the six months ended 31 December 2016, a decrease of 86%. This decrease is attributed to lower production volumes. The average daily production for the Company during the six months ended 31 December 2017 was 1.2 bbls of oil at an average realized sale price of \$47.50 per barrel of oil. Royalties per barrel of oil averaged \$7.83, with production operating expenses for the period of \$65.80 per barrel of oil. The netback received by the Company per barrel of oil sold during the six months ended 31 December 2017 was (\$26.13). The high production operating expenses mainly relate to ongoing maintenance of wells that are currently shut-in awaiting further development.

## Corporate Financial and Other Information

### Financial Position

Strata-X Energy Ltd's cash position at the end of the quarter was USD\$598,000.

### Reporting Currency

The functional reporting currency of Strata-X Energy Ltd is United States of America dollars (USD). Therefore, the corresponding ASX Appendix 5B (Statement of Cash Flows) is denoted in USD.

### Corporate Events

None

### Share Data

As of 31 December 2017, Strata-X had 89,825,208 shares outstanding, including 62,636,136 CDIs.

### Person Compiling Information

Technical information contained herein is based on the information compiled by the Company's Chief Executive Officer and President, Tim Hoops. Mr. Hoops has over 35 years' experience in the petroleum industry and is a graduate of the Colorado School of Mines with a degree in Geological Engineering. Mr. Hoops consents to the inclusion in this document of the matters based on this information, in the form and context in which they appear.