

**STRATA-X ENERGY LTD.**  
(Unaudited)  
Interim Condensed Consolidated Financial Statements  
For the Nine Months Ended 31 March 2017  
(Expressed in U.S. Dollars)

**STRATA-X ENERGY LTD.**

(Unaudited)

## Interim Condensed Consolidated Statement of Financial Position

31 March 2018

(Expressed in U.S. Dollars)

|  | <b>31 March<br/>2018</b> | 30 June<br>2017      |
|--|--------------------------|----------------------|
| <b>ASSETS:</b>                                       |                          |                      |
| <b>Current assets:</b>                               |                          |                      |
| Cash and cash equivalents                            | \$ 287,424               | \$ 975,442           |
| Accounts receivable                                  | 66,542                   | 60,336               |
| Prepays and other                                    | 20,273                   | 11,553               |
| <b>Total current assets</b>                          | <b>374,239</b>           | <b>1,047,331</b>     |
| <b>Other assets</b>                                  | <b>215,347</b>           | <b>247,234</b>       |
| <b>Exploration and evaluation assets (Note 5)</b>    | <b>275,886</b>           | <b>64,678</b>        |
| <b>Property and equipment (Note 6)</b>               | <b>12,066,750</b>        | <b>12,092,123</b>    |
| <b>Total assets</b>                                  | <b>\$ 12,932,222</b>     | <b>\$ 13,451,366</b> |
| <b>LIABILITIES:</b>                                  |                          |                      |
| <b>Current liabilities:</b>                          |                          |                      |
| Accounts payable and accrued liabilities             | \$ 77,514                | \$ 140,016           |
| Amounts due to related parties                       | 1,739                    | 67,057               |
| <b>Total current liabilities</b>                     | <b>79,253</b>            | <b>207,073</b>       |
| <b>Accrued liabilities</b>                           | <b>63,048</b>            | <b>63,048</b>        |
| <b>Decommissioning provisions</b>                    | <b>507,526</b>           | <b>513,150</b>       |
| <b>Total liabilities</b>                             | <b>649,827</b>           | <b>783,271</b>       |
| <b>SHAREHOLDERS' EQUITY:</b>                         |                          |                      |
| <b>Share capital (Note 7)</b>                        | <b>36,955,438</b>        | <b>36,955,438</b>    |
| <b>Share based compensation reserve (Note 7)</b>     | <b>1,557,934</b>         | <b>1,531,908</b>     |
| <b>Warrant reserve (Note 7)</b>                      | <b>1,102,488</b>         | <b>1,102,488</b>     |
| <b>Contributed surplus</b>                           | <b>22,066,879</b>        | <b>22,066,879</b>    |
| <b>Accumulated other comprehensive income (loss)</b> | <b>(824,340)</b>         | <b>(821,829)</b>     |
| <b>Deficit</b>                                       | <b>(48,576,004)</b>      | <b>(48,166,789)</b>  |
| <b>Total shareholders' equity</b>                    | <b>12,282,395</b>        | <b>12,668,095</b>    |
| <b>Total liabilities and shareholders' equity</b>    | <b>\$ 12,932,222</b>     | <b>\$ 13,451,366</b> |

Going Concern (Note 1)

Commitments and subsequent event (Notes 1 and 13)

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 Nine Months Ended 31 March 2018 and 31 March 2017

(Expressed in U.S. Dollars)

|  | Three months ended<br>31 March |                     | Nine months ended<br>31 March |                     |
|--|--------------------------------|---------------------|-------------------------------|---------------------|
|  | 2018                           | 2017                | 2018                          | 2017                |
| <b>Oil and gas revenue, net of royalties</b>                   | \$ 22,440                      | \$ 36,242           | \$ 43,490                     | \$ 140,268          |
| <b>Expenses</b>  |                                |                     |                               |                     |
| Production and operating                                       | 835                            | 23,435              | 18,536                        | 113,219             |
| General and administrative                                     | 112,178                        | 203,343             | 372,979                       | 493,346             |
| Depletion, depreciation and<br>amortization (Note 6)           | 9,217                          | 26,182              | 35,010                        | 238,971             |
| Impairment of oil and gas<br>properties                        | -                              | -                   | -                             | 5,903               |
| Loss on abandonment deposits and<br>decommissioning provisions | -                              | -                   | 20,063                        | -                   |
| Total expenses   | <u>122,230</u>                 | <u>252,960</u>      | <u>446,588</u>                | <u>851,439</u>      |
| <b>Net operating loss</b>                                      | (99,790)                       | (216,718)           | (403,098)                     | (711,171)           |
| <b>Gain on valuation of<br/>derivative liabilities</b>         | -                              | 4                   | -                             | 875                 |
| <b>Gain on reversal of<br/>decommissioning liability</b>       | -                              | 41,976              | -                             | 41,976              |
| <b>Net finance income<br/>(expense) (Note 9(c))</b>            | <u>(2,412)</u>                 | <u>959</u>          | <u>(6,116)</u>                | <u>(2,230)</u>      |
| <b>Loss for the period</b>                                     | (102,202)                      | (173,779)           | (409,214)                     | (670,550)           |
| <b>Other comprehensive income (loss)</b>                       |                                |                     |                               |                     |
| Exchange differences in<br>translating foreign operations      | <u>(10,415)</u>                | <u>46,896</u>       | <u>(2,511)</u>                | <u>33,646</u>       |
| <b>Other comprehensive income (loss)<br/>for the period</b>    | <u>(10,415)</u>                | <u>46,896</u>       | <u>(2,511)</u>                | <u>33,646</u>       |
| <b>Comprehensive loss</b>                                      | <u>\$ (112,616)</u>            | <u>\$ (126,883)</u> | <u>\$ (411,724)</u>           | <u>\$ (636,904)</u> |

*See accompanying notes*

## STRATA-X ENERGY LTD.

(Unaudited)

Interim Condensed Consolidated Statement of Changes in Shareholders' Equity

For the Nine Months Ended 31 March 2018 and 31 March 2017

(Expressed in U.S. Dollars)

|  | Share<br>Capital     | Share based<br>Compensation<br>Reserve | Warrants<br>Reserve | Contributed<br>Surplus | Accumulated<br>Other<br>Comprehensive<br>Loss          | Deficit                | Total                |
|--|----------------------|--|---------------------|------------------------|--|------------------------|----------------------|
| <b>Balance, 1 July 2017</b>              | \$ 36,955,438        | \$ 1,531,908                           | \$ 1,102,488        | \$ 22,066,879          | \$ (821,829)   | \$ (48,166,790)        | \$ 12,668,094        |
| <b>Share-based compensation (Note 7)</b> | -                    | 26,026                                 | -                   | -                      | -  | -                      | 26,026               |
| <b>Loss and comprehensive loss</b>       | -                    | -                                      | -                   | -                      | (2,511)  | (409,214)              | (411,725)            |
| <b>Balance, 31 March 2018</b>            | <u>\$ 36,955,438</u> | <u>\$ 1,557,934</u>                    | <u>\$ 1,102,488</u> | <u>\$ 22,066,879</u>   | <u>\$ (824,340)</u>                                    | <u>\$ (48,576,004)</u> | <u>\$ 12,282,395</u> |
|  | Share<br>Capital     | Share based<br>Compensation<br>Reserve | Warrants<br>Reserve | Contributed<br>Surplus | Accumulated<br>Other<br>Comprehensive<br>Income (loss) | 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       | 320,262              | -                                      | -                   | -                      | -  | -                      | 320,262              |
| Private placement, 22 December 2016      | 759,631              | -                                      | -                   | -                      | -  | -                      | 759,631              |
| Share-based compensation                 | -                    | 53,943                                 | -                   | -                      | -  | -                      | 53,943               |
| Finer warrants issued                    | (6,002)              | -                                      | 6,002               | -                      | -  | -                      | -                    |
| Loss and comprehensive income (loss)     | -                    | -                                      | -                   | -                      | 33,646   | (670,550)              | (636,904)            |
| Balance, 31 March 2017                   | <u>\$ 37,042,438</u> | <u>\$ 1,525,932</u>                    | <u>\$ 1,015,488</u> | <u>\$ 22,066,879</u>   | <u>\$ (788,321)</u>                                    | <u>\$ (48,131,187)</u> | <u>\$ 12,731,229</u> |

See accompanying notes

**STRATA-X ENERGY LTD.**

(Unaudited)

## Interim Condensed Consolidated Statement of Cash Flows

For the Nine Months Ended 31 March 2018

(Expressed in U.S. Dollars)

|  | <b>Nine months ended<br/>31 March</b> |                     |
|--|---------------------------------------|---------------------|
|  | <b>2018</b>                           | <b>2017</b>         |
| <b>Cash and cash equivalents provided by (used in):</b>            |                                       |                     |
| <b>Operating activities:</b>                                       |                                       |                     |
| Net loss for the period  | \$ (409,214)                          | \$ (670,550)        |
| Adjustments for:   |                                       |                     |
| Depletion, depreciation and amortization                           | 35,010                                | 238,971             |
| Loss on abandonment deposits and<br>decommissioning provisions     | 20,063                                | -                   |
| Accretion expense  | 8,000                                 | 5,426               |
| Share-based compensation   | 26,026                                | 53,493              |
| Impairment loss of oil and gas properties                          | -                                     | 5,903               |
| Gain on adjustment of decommissioning provision                    | -                                     | (41,976)            |
| Gain on valuation of derivative liabilities                        | -                                     | (875)               |
| Operating cash flows before changes in non-cash<br>working capital | (320,115)                             | (409,608)           |
| Cash abandonment expenditures                                      | (26,800)                              | -                   |
| Changes in non-cash working capital (Note 9)                       | (142,747)                             | (276,209)           |
| Net cash used in operating activities:                             | (489,662)                             | (685,817)           |
| <b>Investing activities:</b>                                       |                                       |                     |
| Exploration and evaluation assets expenditures                     | (211,208)                             | (41,964)            |
| Proceeds from abandonment deposits                                 | 25,000                                | -                   |
| Property and equipment expenditures                                | (9,637)                               | (24,646)            |
| Net cash used in investing activities:                             | (195,845)                             | (66,610)            |
| <b>Financing activities:</b>                                       |                                       |                     |
| Proceeds from issuance of common stock                             | -                                     | 1,132,322           |
| Payment of share issuance costs                                    | -                                     | (52,429)            |
| Net cash from financing activities:                                | -                                     | 1,079,893           |
| <b>Increase (decrease) in cash and cash equivalents</b>            | (685,507)                             | 327,466             |
| <b>Cash and cash equivalents, beginning of period</b>              | 975,442                               | 744,042             |
| <b>Effect of exchange rate translation</b>                         | (2,511)                               | 82,637              |
| <b>Cash and cash equivalents, end of period</b>                    | <u>\$ 287,424</u>                     | <u>\$ 1,154,145</u> |

See accompanying notes

# **STRATA-X ENERGY LTD.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 March 2018

(Expressed in U.S. Dollars)

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## **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. The headquarters of the Company are located at 1620 Market Street, Suite #3W, 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.

### **Going Concern**

The interim condensed consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company incurred a net loss of \$409,214 for the nine months ended 31 March 2018 (year ended 30 June 2017 - \$2,441,739) and has an accumulated deficit of \$48,576,003 as of 31 March 2018 (30 June 2017 - \$48,166,789). In addition, the Company incurred negative operating cash flows before changes in non-cash working capital of \$320,115 for the nine month period ended 31 March 2018 (year ended 30 June 2017 - \$584,830).

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 development of the CSG Project (Note 13). In January 2018, the Company pre-empted a third party offer to buy out the interest held by the arm's length third party in the CSG Project. The pre-empt calls for an immediate deposit of AUD\$25,000, along with additional payments over time totaling AUD\$525,000 upon successful execution of a purchase and sale agreement, at which time the Company would secure 100% of the working interests in the project. To potentially offset the cost to buy out the interest, the Company is actively engaged in farm-out discussions with third parties to sell a non-operated position in the tenements in the project. In February 2018, the prospecting licenses covering the project were re-issued by the Republic of Botswana until the end of 2025, allowing the Company a timeframe for proving existing reserves and additional time to market a potential sale of a non-operated position in the project. Management anticipates the need for further financing and/or equity funding to fund future exploration and development of the Company's various oil and gas properties including the CSG Project (Note 13).

# STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 March 2018

(Expressed in U.S. Dollars)

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## 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 2017.

The policies applied in these interim condensed consolidated financial statements are based on IFRS issued and outstanding as of 27 April 2018, 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. In January 2017, Rhino CBM (Proprietary) Limited ("Rhino") was incorporated in accordance with the Companies Act of the Republic of Botswana, Africa, and is a wholly-owned subsidiary of Strata-X, Australia PTY Ltd. In 2017, SXE Innovations, LLC was formed as a wholly-owned subsidiary of Strata-X, Inc. In December 2017 Sharpay Enterprises Pty Limited ("Sharpay") and Jab Right Pty Limited ("Jab Right") were incorporated in accordance with the Companies Act of the Republic of Botswana, Africa, and are wholly-owned subsidiaries of Strata-X Australia PTY Ltd.

## STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 March 2018

(Expressed in U.S. Dollars)

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### 2. Basis of Presentation (continued)

#### c) 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 2017.

### 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 2017 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 2017 annual financial statements. However, it does not expect any significant impact.

### 4. Segment Reporting

The Company operates in one industry segment, being the oil and gas industry, in several geographic locations. There have been no changes to the Company's geographic locations or industry segments since 30 June 2017. Segmented information in USD by geographic location is as follows:

As at and for the nine months ended 31 March 2018:

|                    | Canada      | United States | Australia | Botswana   | Total         |
|--------------------|-------------|---------------|-----------|------------|---------------|
| Revenues           | \$ -        | \$ 43,490     | \$ -      | \$ -       | \$ 43,490     |
| Income (Loss)      | \$ (70,516) | \$ (338,698)  | \$ -      | \$ -       | \$ (409,214)  |
| Non-current Assets | \$ -        | \$ 12,284,583 | \$ -      | \$ 273,400 | \$ 12,557,983 |
| Total Assets       | \$ 10,430   | \$ 12,594,617 | \$ 53,775 | \$ 273,400 | \$ 12,932,222 |
| Total Liabilities  | \$ 2,965    | \$ 638,954    | \$ 7,908  | \$ -       | \$ 649,827    |



## STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 March 2018

(Expressed in U.S. Dollars)

### 4. Segment Reporting

As at and for the nine months ended 31 March 2017:

|                    | Canada       | United States | Australia  | Botswana  | Total         |
|--------------------|--------------|---------------|------------|-----------|---------------|
| Revenues           | \$ -         | \$ 140,268    | \$ -       | \$ -      | \$ 140,268    |
| Income (Loss)      | \$ (229,752) | \$ (461,313)  | \$ 20,515  | \$ -      | \$ (670,550)  |
| Non-current Assets | \$ -         | \$ 12,392,218 | \$ -       | \$ 40,820 | \$ 12,433,038 |
| Total Assets       | \$ 33,348    | \$ 13,355,834 | \$ 288,888 | \$ 40,820 | \$ 13,718,890 |
| Total Liabilities  | \$ 751       | \$ 944,964    | \$ 42,395  | \$ -      | \$ 988,110    |

### 5. Exploration and Evaluation Assets

|                              | <u>31 March<br/>2018</u> | <u>30 June 2017</u> |
|------------------------------|--------------------------|---------------------|
| Balance, beginning of period | \$ 64,678                | \$ -                |
| Additions                    | 211,208                  | 64,678              |
| Impairment loss              | -                        | -                   |
| Balance, end of period       | <u>\$ 275,886</u>        | <u>\$ 64,678</u>    |

As at 30 June 2017, the Company determined there were no indicators of impairment or indications that impairment losses on exploration and evaluation assets recognized in prior periods be reversed.

Additions in the period and total exploration and evaluation assets relate solely to activities associated with the CSG Project (Note 13).

**STRATA-X ENERGY LTD.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 March 2018

(Expressed in U.S. Dollars)

**6. Property and Equipment**

|                                    | <b>Cost</b>   |   |  |                                    |   |   |
|------------------------------------|---|---|--|------------------------------------|---|---|
|                                    | <b>Balance at<br/>30 June 2016</b>                                      | <b>Additions</b>                        | <b>Change in<br/>Decommissioning<br/>Provision</b> | <b>Balance at<br/>30 June 2017</b> | <b>Additions</b>                        | <b>Balance at<br/>31 March<br/>2018</b> |
| Oil and gas properties             | \$ 13,097,223   | \$ 16,209                               | \$ (70,000)  | \$ 13,043,432                      | \$ 9,637                                | \$ 13,053,069                           |
| Computer equipment<br>and software | 19,032  | -                                       | -  | 19,032                             | -                                       | 19,032                                  |
|                                    | <u>\$ 13,116,255</u>  | <u>\$ 16,209</u>                        | <u>\$ (70,000)</u>                                 | <u>\$ 13,062,464</u>               | <u>\$ 9,637</u>                         | <u>\$ 13,072,101</u>                    |
|                                    | <b>Accumulated Depletion, Depreciation, Amortization and Impairment</b> |   |  |                                    |   |   |
|                                    | <b>Balance at<br/>30 June 2016</b>                                      | <b>Additions</b>                        | <b>Balance at<br/>30 June 2017</b>                 | <b>Additions</b>                   | <b>Balance at<br/>31 March<br/>2018</b> |   |
| Oil and gas properties             | \$ 664,884  | \$ 289,475                              | \$ 954,359   | \$ 33,260                          | \$ 987,619                              |   |
| Computer equipment<br>and software | 13,206  | 2,776                                   | 15,982   | 1,750                              | 17,732                                  |   |
|                                    | <u>\$ 678,090</u>   | <u>\$ 292,251</u>                       | <u>\$ 970,341</u>                                  | <u>\$ 35,010</u>                   | <u>\$ 1,005,351</u>                     |   |
|                                    | <b>Net Book Value</b>   |   |  |                                    |   |   |
|                                    | <b>Balance at<br/>30 June 2017</b>                                      | <b>Balance at<br/>31 March<br/>2018</b> |  |                                    |   |   |
| Oil and gas properties             | \$ 12,089,073   | \$ 12,065,450                           |  |                                    |   |   |
| Computer equipment<br>and software | 3,050   | 1,300                                   |  |                                    |   |   |
|                                    | <u>\$ 12,092,123</u>  | <u>\$ 12,066,750</u>                    |  |                                    |   |   |

**Impairment**

The Company assesses many factors when determining if an impairment test should be performed. At 31 March 2018 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 March 2018

(Expressed in U.S. Dollars)

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### 7. Share Capital

Authorized:

Unlimited number of common shares without nominal or par value

Unlimited number of preferred shares without nominal or par value

The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares and determine the designation, rights, privileges, restrictions and conditions attached to each series of share.

Common shares issued and outstanding:

|   | <u>Number</u>     | <u>Amount</u>        |
|---|-------------------|----------------------|
| Balance at 30 June 2016                   | 58,775,208        | \$ 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                      |                   | <u>(145,431)</u>     |
| Balance at 30 June 2017 and 31 March 2018 | <u>89,825,208</u> | <u>\$ 36,955,438</u> |

**STRATA-X ENERGY LTD.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 March 2018

(Expressed in U.S. Dollars)

**7. Share Capital (continued)****Finder warrants**

Activity related to the number of warrants outstanding and exercisable for the Company for the nine months ended 31 March 2018 and the year ended 30 June 2017 is as follows:

|                                  | <b>31 March 2018</b> |                                 |          | <b>30 June 2017</b> |                                 |          |
|----------------------------------|----------------------|---------------------------------|----------|---------------------|---------------------------------|----------|
|                                  | Number               | Weighted Average Exercise Price | Currency | Number              | Weighted Average Exercise Price | Currency |
| Balance, beginning of period     | 3,881,250            | \$ 0.07                         | AUD      | 6,166,293           | \$ 0.96                         |          |
| Finder warrants - 9 January 2017 | -                    | -                               |          | 3,881,250           | 0.07                            | AUD      |
| Expiration of warrants           | -                    | -                               |          | (6,166,293)         | 0.96                            |          |
| Balance, end of period           | <u>3,881,250</u>     | <u>\$ 0.07</u>                  | AUD      | <u>3,881,250</u>    | <u>\$ 0.07</u>                  | AUD      |

The following table summarizes information on warrants outstanding at 31 December 2017:

| Exercise Price | Currency | Number Outstanding | Weighted Average Contractual Life (years) |
|----------------|----------|--------------------|---|
| \$ 0.07        | AUD      | 3,881,250          | 1.78                                      |

**STRATA-X ENERGY LTD.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 March 2018

(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 presented in Canadian dollars and assumes an exchange rate of 1.0 \$AUD to \$CAN.

|                                  | <u>31 March 2018</u>         |  | <u>30 June 2017</u>          |  |
|----------------------------------|------------------------------|--|------------------------------|--|
|                                  | <u>Number<br/>of Options</u> | <u>Weighted<br/>Average<br/>Exercise<br/>Price (CAN)</u> | <u>Number<br/>of Options</u> | <u>Weighted<br/>Average<br/>Exercise<br/>Price (CAN)</u> |
| Outstanding, beginning of period | 4,940,000                    | \$ 0.59  | 4,956,667                    | \$ 0.60  |
| Granted                          | 3,800,000                    | 0.05   | -                            | -  |
| Expired                          | -                            | -  | (16,667)                     | 1.50   |
| Outstanding, end of period       | <u>8,740,000</u>             | <u>\$ 0.36</u>   | <u>4,940,000</u>             | <u>\$ 0.59</u>   |
| Exercisable, end of period       | <u>4,940,000</u>             | <u>\$ 0.59</u>   | <u>4,173,333</u>             | <u>\$ 0.64</u>   |

The Company granted 3,800,000 options on 19 December 2017 that vest in 25% increments every six months beginning on 19 June 2018 with the final 25% increment of options vesting on 19 December 2019.

**STRATA-X ENERGY LTD.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 March 2018

(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 March 2018:

| Exercise Price | Currency | Number Outstanding | Number Exercisable | Weighted Average Contractual Life (years) |
|----------------|----------|--------------------|--------------------|---|
| \$ 0.90        | CDN      | 1,306,667          | 1,306,667          | 2.79                                      |
| \$ 1.02        | CDN      | 283,333            | 283,333            | 4.48                                      |
| \$ 1.23        | CDN      | 250,000            | 250,000            | 0.56                                      |
| \$ 1.50        | CDN      | 33,333             | 33,333             | 0.05                                      |
| \$ 0.36        | AUD      | 3,066,667          | 3,066,667          | 2.29                                      |
| \$ 0.05        | CDN      | 3,800,000          | -                  | 4.72                                      |
|                |          | <u>8,740,000</u>   | <u>4,940,000</u>   |   |

During the nine months ended 31 March 2018, the Company expensed the fair value recognized for stock options of \$26,026 (31 March 2017 - \$53,493) as general and administrative costs with a corresponding adjustment to share based compensation reserve in shareholders' equity.

The Company uses the Black-Scholes option pricing model to value the options at each grant date under the following weighted average assumptions:

|                                  | 31 December 2017  |
|----------------------------------|-------------------|
| Exercise price                   | <u>\$0.05 CAN</u> |
| Grant date fair value            | \$0.02 CAN        |
| Expected dividend rate           | 0%                |
| Expected volatility              | 105%              |
| Risk-free interest rate          | 1.00%             |
| Expected life of options (years) | 5.00              |
| Forfeiture rate                  | 0.0%              |
| Share price on grant date        | \$0.03 CAN        |

Expected volatility was determined based on the Company's historical volatility and a comparison to other companies in the business of exploration for and development of production of oil and natural gas. A forfeiture rate of 0% was used when recording stock-based compensation as it is expected that all officers, directors, employees and consultants will continue with the Company over the vesting period.

## STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 March 2018

(Expressed in U.S. Dollars)

### 8. Loss per Common Share

The basic loss per common share is based on the weighted average number of common shares outstanding for the three and nine months ended 31 March 2018 of 89,825,208 (2017 – 89,825,208 and 70,629,027, respectively). All stock options and finder 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.

### 9. Supplemental Cash Flow Information

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

|  | <b>Nine months ended 31 March</b> |                     |
|--|-----------------------------------|---------------------|
|  | <b>2018</b>                       | <b>2017</b>         |
| Accounts receivable                      | \$ (6,206)                        | \$ (45,572)         |
| Prepays and other                        | (8,721)                           | -                   |
| Accounts payable and accrued liabilities | (62,502)                          | (128,635)           |
| Amounts due to related parties           | (65,318)                          | (102,002)           |
|  | <u>\$ (142,747)</u>               | <u>\$ (276,209)</u> |

(b) Cash and cash equivalents comprise:

|   | <b>31 March</b>   | <b>30 June</b>    |
|---|-------------------|-------------------|
|   | <b>2018</b>       | <b>2017</b>       |
| Balances with banks in current accounts | \$ 63,934         | \$ 297,231        |
| Money market savings account            | 223,490           | 678,211           |
|   | <u>\$ 287,424</u> | <u>\$ 975,442</u> |

(c) Net finance expense for the three and nine months ended 31 March 2018 includes \$3,000 and \$8,000 in accretion expense, respectively (2017 - \$1,000 three months; \$5,426 nine months) net of finance income of \$586 and \$1,884, respectively (2017 - \$792 three months; \$2,028 nine months).

### 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 nine months ended 31 March 2018, the Company incurred approximately \$27,500 (2017 - \$36,600) in costs payable to the outside firm for accounting services. Approximately \$21,500 (2017 - \$14,600) is included in general and administrative expenses and \$7,000 (2017 - \$22,000) was invoiced to joint venture partners as general and administrative expense recovery and included in accounts receivable at 31 March 2018. At 31 March 2018, amounts owing and included in due to related parties is \$Nil (2017 – \$Nil).

## STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 March 2018

(Expressed in U.S. Dollars)

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### 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. There were no changes to the Company's risk management policies or processes during the nine month period ended 31 March 2018.

#### 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 March 2018, the Company had a positive working capital of \$294,986 (30 June 2017 - \$840,258). The commodity price environment experienced during the period has negatively impacted earnings and operating cash flow.

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. 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<br>a year | After 5 years    |
|--|---------------------|------------------|
| Accounts payable and accrued liabilities | \$ 77,514           | \$ -             |
| Amounts due to related parties           | 1,739               | -                |
| Accrued liabilities                      | -                   | 63,048           |
|  | <u>\$ 79,253</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.



## **STRATA-X ENERGY LTD.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 March 2018

(Expressed in U.S. Dollars)

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### **11. Financial Instruments (continued)**

#### **Credit risk**

The Company's exposure to credit risk relates to cash and cash equivalents, accounts receivable and other assets and arises from the possibility that the third party does not satisfy its contractual obligations. The Company minimizes its exposure to credit risk by keeping the majority of its cash and cash equivalents 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 \$569,313 at 31 March 2018 (30 June 2017 - \$1,283,012). 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 March 2018, the Company recorded an allowance for doubtful accounts of \$156,090 (30 June 2017 - \$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 \$48,172 (30 June 2017 - \$39,528).

#### **Market risk**

The Company's exposure to 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. There is no significant change to the Company's exposure to market risks since 30 June 2017.

## STRATA-X ENERGY LTD.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 March 2018

(Expressed in U.S. Dollars)

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### 12. Capital Management

The Company's objective when managing capital is to progress the exploration and development of natural gas properties in Botswana, under Rhino, by 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.

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:

|                      | <b>31 March<br/>2018</b>    | <b>30 June<br/>2017</b>     |
|----------------------|-----------------------------|-----------------------------|
| Shareholders' equity | <b><u>\$ 12,282,395</u></b> | <b><u>\$ 12,668,095</u></b> |

Total capital managed decreased for the nine months ended 31 March 2018 due to the overall use of cash in operating activities for the period.

## **STRATA-X ENERGY LTD.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

31 March 2018

(Expressed in U.S. Dollars)

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### **13. Commitments**

#### Farm-in agreement and subsequent purchase of interests

In December 2016, Rhino 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 coal seam gas project (“CSG Project”) located on the Kalahari Basin CSG Fairway in Botswana, Africa. The three stages of the farm-in agreement were defined by Milestone Dates per the Agreement, with the Stage 1 Milestone Date being March 2018, with an option for extension.

In January 2018, the Company, through its wholly-owned subsidiary, Sharpay Enterprises Pty Ltd., pre-empted a third party offer to buy out Farmco’s interest in the CSG Project. The pre-empt offer was on similar terms to the third party offer, including an initial deposit of AUD\$25,000 to Farmco along with execution of a purchase and sale agreement (“PSA”) that required a payment to Farmco of AUD\$125,000 and the granting of an overriding royalty interest to Farmco of 0.875%. The Company will pay Farmco AUD\$200,000 on or before 5 May, 2018 and an additional AUD\$200,000 on or before 19 July 2018 per the terms of the agreement. With this transaction, the Company has secured 100% of the working interests in the project.

In early 2018, the Republic of Botswana re-issued the prospecting licenses covering the CSG Project. Concurrently, the tenements were released from Rhino and granted to Sharpay. The renewed licenses expire in 2025.

Rhino has recorded approximately \$273,000 of license acquisition costs and other related costs as exploration and evaluation assets at 31 March 2018, including the initial deposit and additional payment required per the above agreement in total of AUD\$150,000.

#### Office lease

The Company entered into a rental agreement in February 2018 for office premises to 31 May 2021 for a total commitment of \$96,160.