

STRATA-X ENERGY LTD.
Consolidated Financial Statements
Years Ended 30 June 2018 and 2017
(Expressed in U.S. Dollars)

Independent Auditors' Report

To the Shareholders of
Strata-X Energy Ltd.

We have audited the accompanying consolidated financial statements of Strata-X Energy Ltd., which comprise the consolidated statements of financial position as at June 30, 2018 and June 30, 2017, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years ended June 30, 2018 and June 30, 2017, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Strata-X Energy Ltd. as at June 30, 2018 and June 30, 2017, and its financial performance and its cash flows for the years ended June 30, 2018 and June 30, 2017 in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to note 1 to the consolidated financial statements which describes conditions that indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue operating as a going concern. Our opinion is not qualified in respect of this matter.

Collins Bauer Calgary LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Calgary, Canada
September 24, 2018

STRATA-X ENERGY LTD.

Consolidated Statements of Financial Position

30 June 2018 and 30 June 2017

(Expressed in U.S. Dollars)

	2018	2017
ASSETS:		
Current assets:		
Cash and cash equivalents (Note 13)	\$ 296,306	\$ 975,442
Accounts receivable (Note 16)	17,828	60,336
Prepays and other	18,833	11,553
Total current assets	332,967	1,047,331
Other assets (Note 5)	215,347	247,234
Exploration and evaluation assets (Notes 6 and 19)	620,802	64,678
Property and equipment (Note 7)	11,080,359	12,092,123
Total assets	\$ 12,249,475	\$ 13,451,366
LIABILITIES:		
Current liabilities:		
Accounts payable and accrued liabilities (Note 17)	\$ 273,220	\$ 140,016
Note payable, related party (Note 9)	148,091	-
Amounts due to related parties (Note 8)	8,500	67,057
Total current liabilities	429,811	207,073
Accrued liabilities (Note 17)	63,048	63,048
Decommissioning provisions (Note 10)	510,526	513,150
Total liabilities	1,003,385	783,271
SHAREHOLDERS' EQUITY:		
Share capital (Note 11)	36,955,438	36,955,438
Prepaid share capital reserve (Note 11)	208,809	-
Share based compensation reserve (Note 11)	1,564,524	1,531,908
Warrants reserve (Note 11)	1,102,488	1,102,488
Contributed surplus	22,066,879	22,066,879
Accumulated other comprehensive loss	(823,411)	(821,829)
Deficit	(49,828,637)	(48,166,789)
Total shareholders' equity	11,246,090	12,668,095
Total liabilities and shareholders' equity	\$ 12,249,475	\$ 13,451,366

Nature of Business and Going Concern (Note 1)

Commitments and subsequent events (Notes 1, 6, 19 and 20)

See accompanying notes

Approved on behalf of the Board

Director_____
Director

STRATA-X ENERGY LTD.

Consolidated Statements of Loss and Comprehensive Loss
For the Years Ended 30 June 2018 and 30 June 2017
(Expressed in U.S. Dollars)

	2018	2017
Oil and gas revenue, net of royalties (Note 15)	\$ 53,798	\$ 167,264
Expenses		
Production and operating	42,512	156,038
General and administrative (Notes 7 and 11)	610,179	663,698
Depletion, depreciation and amortization (Note 7)	1,034,139	292,251
Impairment of oil and gas properties (Note 6 and 7)	-	15,000
Total expenses	<u>1,686,830</u>	<u>1,126,987</u>
Net operating loss	(1,633,032)	(959,723)
Other income (Note 17)	-	212,798
Gain (loss) on settlement of decommissioning liability (Note 10)	(20,062)	41,976
Net finance expense (Note 13(c))	<u>(8,754)</u>	<u>(1,203)</u>
Loss for the year	(1,661,848)	(706,152)
Other comprehensive income (loss)		
Exchange differences in translating foreign operations	<u>(1,582)</u>	<u>138</u>
Other comprehensive income (loss) for the year	<u>(1,582)</u>	<u>138</u>
Comprehensive loss	<u>\$ (1,663,430)</u>	<u>\$ (706,014)</u>
Loss per common share, basic and diluted (Note 12)	\$ (0.02)	\$ (0.01)

See accompanying notes

STRATA-X ENERGY LTD.

Consolidated Statements of Changes in Shareholders' Equity

Years Ended 30 June 2018 and 30 June 2017

(Expressed in U.S. Dollars)

	Share Capital	Prepaid Share Capital Reserve	Share based Compensation Reserve	Warrants Reserve	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total
Balance, 1 July 2017	\$ 36,955,438	\$ -	\$ 1,531,908	\$ 1,102,488	\$ 22,066,879	\$ (821,829)	\$ (48,166,789)	\$ 12,668,095
Prepaid private placement (Note 11)	-	208,809	-	-	-	-	-	208,809
Share-based compensation (Note 11)	-	-	32,616	-	-	-	-	32,616
Net loss and comprehensive loss	-	-	-	-	-	(1,582)	(1,661,848)	(1,663,430)
Balance, 30 June 2018	<u>\$ 36,955,438</u>	<u>\$ 208,809</u>	<u>\$ 1,564,524</u>	<u>\$ 1,102,488</u>	<u>\$ 22,066,879</u>	<u>\$ (823,411)</u>	<u>\$ (49,828,637)</u>	<u>\$ 11,246,090</u>
	Share Capital	Prepaid Share Capital Reserve	Share based Compensation Reserve	Warrants Reserve	Contributed Surplus	Accumulated Other Comprehensive 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 (Note 11)	320,262	-	-	-	-	-	-	320,262
Private placement, 22 December 2016 (Note 11)	759,631	-	-	-	-	-	-	759,631
Share-based compensation (Note 11)	-	-	59,919	-	-	-	-	59,919
Finder warrants issued (Note 11)	(93,002)	-	-	93,002	-	-	-	-
Net loss and comprehensive income	-	-	-	-	-	138	(706,152)	(706,014)
Balance, 30 June 2017	<u>\$ 36,955,438</u>	<u>\$ -</u>	<u>\$ 1,531,908</u>	<u>\$ 1,102,488</u>	<u>\$ 22,066,879</u>	<u>\$ (821,829)</u>	<u>\$ (48,166,789)</u>	<u>\$ 12,668,095</u>

See accompanying notes

STRATA-X ENERGY LTD.

Consolidated Statements of Cash Flows

For the Years Ended 30 June 2018 and 30 June 2017

(Expressed in U.S. Dollars)

	2018	2017
Cash and cash equivalents provided by (used in):		
Operating activities:		
Net loss for the year	\$ (1,661,848)	\$ (706,152)
Adjustments for:		
Depletion, depreciation and amortization	1,034,139	292,251
Accretion expense	11,000	6,526
Share-based compensation	32,616	59,919
Other income	-	(212,798)
Impairment of oil and gas properties	-	15,000
Unrealized loss on foreign exchange	(8,053)	3,287
(Gain) loss on reversal of decommissioning liability	20,062	(41,976)
Gain on valuation of derivative liabilities	-	(887)
Operating cash flows before changes in non-cash working capital	(572,084)	(584,830)
Cash abandonment expenditures	(26,800)	(29,400)
Changes in non-cash working capital (Note 13)	(42,426)	(148,716)
Net cash used in operating activities:	(641,310)	(762,946)
Investing activities:		
Proceeds from abandonment deposits	25,000	-
Exploration and evaluation assets expenditures	(556,124)	(64,678)
Property and equipment expenditures	(22,375)	(16,209)
Changes in non-cash working capital (Note 13)	148,091	-
Net cash used in investing activities:	(405,408)	(80,887)
Financing activities:		
Proceeds from issuance of common stock	-	1,132,322
Proceeds from note payable, related party	148,091	-
Prepaid common stock funds received	222,137	-
Prepayment of share issuance costs	(13,328)	(52,429)
Changes in non-cash working capital (Note 13)	2,000	-
Net cash provided by financing activities:	358,900	1,079,893
Increase (decrease) in cash and cash equivalents	(687,818)	236,060
Cash and cash equivalents, beginning of year	975,442	744,042
Effect of exchange rate translation	8,682	(4,660)
Cash and cash equivalents, end of year	<u>\$ 296,306</u>	<u>\$ 975,442</u>

See accompanying notes

STRATA-X ENERGY LTD.

Notes to the Consolidated Financial Statements

30 June 2018 and 30 June 2017

(Expressed in U.S. Dollars)

1. Nature of Business and Going Concern

Nature of Business

Strata-X Energy Ltd. (the "Company") was incorporated by Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act of Alberta on 18 June 2007. Through its subsidiaries, the Company's business activities are directed primarily toward the acquisition, exploration and development of oil and gas properties in the states of California and Illinois within the United States and in the Republic of Botswana in Africa. The headquarters of the Company is 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".

Going Concern

The 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 \$1,661,848 for the year ended 30 June 2018 (2017 - \$706,152) and has an accumulated deficit of \$49,828,637 as of 30 June 2018 (2017 - \$48,166,789). In addition, the Company generated negative operating cash flows before changes in non-cash working capital and cash abandonment expenditures of \$572,084 (2017 - \$584,830) for the year ended 30 June 2018.

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 6). 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, at which time the Company secured 100% of the working interests in the project. 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 2020, with two 2-year options for renewal, 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. Subsequent to the year ended 30 June 2018, the Company completed a private placement for gross proceeds of CDN\$1,355,000 (USD\$1,003,000). 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 6).

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 consolidated financial statements on a going concern basis.

STRATA-X ENERGY LTD.

Notes to the Consolidated Financial Statements

30 June 2018 and 30 June 2017

(Expressed in U.S. Dollars)

2. Basis of Presentation

a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the “International Accounting Standards Board” (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of 24 September 2018, the date of the Board of Directors approval of the consolidated financial statements.

b) Reporting Entity

The 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 (“SXE”) was formed as a wholly-owned subsidiary of Strata-X, Inc. In December 2017, Sharpay Enterprises Proprietary Limited (“Sharpay”) and Jab Right Proprietary 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.

At 30 June 2018, SXE, Rhino and Jab Right are currently inactive. Sharpay currently holds the tenements for the CSG Project (Note 6).

c) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and share-based compensation and warrant transactions, which were measured at fair value.

d) Functional and Presentation Currency

The consolidated financial statements are presented in United States Dollars. The parent Company’s functional currency is the Canadian dollar. The functional currency of the Company’s United States subsidiary and Australian subsidiary are United States and Australian dollars, respectively. The functional currency of SXE, a wholly owned subsidiary of the United States subsidiary, is the United States dollar. The functional currency of Rhino, Sharpay and Jab Right, wholly-owned subsidiaries of the Company’s Australian subsidiary, is the Botswana Pula.

STRATA-X ENERGY LTD.
Notes to the Consolidated Financial Statements
30 June 2018 and 30 June 2017
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2. **Basis of Presentation (continued)**

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

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 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 and finder warrants 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.

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.

Critical judgments in applying accounting policies

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events or circumstances and the determination of the area's technical feasibility and commercial viability, which, in turn, is dependent on future oil and natural gas prices, future capital expenditures and environmental and regulatory restrictions.

STRATA-X ENERGY LTD.
Notes to the Consolidated Financial Statements
30 June 2018 and 30 June 2017
(Expressed in U.S. Dollars)

2. Basis of Presentation (continued)

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

The determination of Cash Generating Units ("CGUs") requires judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash flows from other assets or groups of assets. CGUs are determined primarily by similar geological structure, shared infrastructure and geographical proximity.

For the purposes of depletion, the Company allocates its oil and natural gas assets to components with similar lives and depletion methods. The groupings of assets are subject to management's judgment and are performed on the basis of geographical proximity and similar reserve life.

The Company is party to various joint interest, operating and other agreements in conjunction with its oil and gas activities. The revenues and expenses allocated between partners are governed by the terms of these agreements and are subject to interpretation and audit by the appropriate parties.

Judgments are required to assess when impairment indicators, or impairment reversal indicators, exist and impairment testing is required for property and equipment and exploration and evaluation assets. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, recent land sales, future costs, discount rates, and other relevant assumptions.

Judgments are made by management to determine the probability of the Company utilizing certain tax pools and assets which, in turn, is dependent on estimates of proved and probable reserves, production rates, future oil and natural gas prices and tax rates.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, substantive potential voting rights are taken into consideration. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

STRATA-X ENERGY LTD.

Notes to the Consolidated Financial Statements

30 June 2018 and 30 June 2017

(Expressed in U.S. Dollars)

3. Summary of Significant Accounting Policies (continued)

(ii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing consolidated financial statements. The consolidated accounts are prepared using uniform accounting policies.

Cash and Cash Equivalents

Cash and cash equivalents consist of amounts on deposit with banks, term deposits and other similar short-term highly liquid investments with maturities of 90 days or less at the date of issue.

Exploration and Evaluation Assets

Pre-license expenditures incurred before the Company has obtained legal rights to explore an area are expensed.

Exploration and evaluation costs include the costs of acquiring licenses, exploratory drilling, geological and geophysical activities, acquisition of mineral and surface rights and technical studies and general and administrative and overhead directly related to exploration activities. Exploration and evaluation costs are capitalized as exploration and evaluation assets and accumulated in cost centres by exploration area when the technical feasibility and commercial viability of extracting oil and natural gas reserves have yet to be determined. Exploration and evaluation assets are measured at cost and are not depleted or depreciated until after these assets are reclassified to property and equipment. Exploration and evaluation assets, net of any impairment loss, are transferred to property and equipment when proved and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved and/or probable reserves have been discovered.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Exploration and evaluation assets are also assessed for impairment upon their reclassification to property and equipment. When an exploration and evaluation asset is determined not to be technically feasible or commercially viable, or the Company decides not to continue with its activity, the unrecoverable exploration and evaluation costs are charged to profit or loss as impairment of oil and gas properties.

Exchanges, swaps, farm-ins or farm-outs that involve only exploration and evaluation assets are accounted for at cost. Any gains or losses from the divestiture of exploration and evaluation assets are recognized in profit or loss.

STRATA-X ENERGY LTD.

Notes to the Consolidated Financial Statements

30 June 2018 and 30 June 2017

(Expressed in U.S. Dollars)

3. Summary of Significant Accounting Policies (continued)

Property and Equipment

a) Oil and Gas Properties

All costs directly associated with the development of oil and natural gas interests are capitalized on a field basis, as oil and natural gas interests if they extend or enhance the recoverable reserves of the underlying assets and are measured at cost less accumulated depletion and depreciation and net impairment losses. Development costs include expenditures for fields where technical feasibility and commercial viability has been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning costs, transfers from exploration and evaluation assets and general and administrative costs directly attributable to the development of oil and natural gas interests.

Costs of replacing parts of property and equipment are capitalized only when they increase the future economic benefits of the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. The carrying amount of any replaced or sold component is derecognized. The costs of day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Exchanges, swaps or disposals of property and equipment are measured at fair value unless the transaction lacks commercial substance or neither the fair value of the asset received nor the asset given up can be readily estimated. When fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gains or losses from the divestiture of property and equipment are recognized in profit or loss.

b) Computer Equipment and Software

Computer equipment and software is stated at cost less accumulated depreciation. Depreciation of computer equipment and software is calculated using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 5 years.

Depletion and Depreciation of Oil and Gas Properties

Oil and natural gas interests are depleted using the unit-of-production method based on the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs to bring those reserves into production ("unit-of-production" method). Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in estimates used in prior periods, such as estimates of proved and probable reserves that affect the unit-of-production calculations do not give rise to prior period adjustments and are dealt with on a prospective basis.

Depreciation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

STRATA-X ENERGY LTD.

Notes to the Consolidated Financial Statements

30 June 2018 and 30 June 2017

(Expressed in U.S. Dollars)

3. Summary of Significant Accounting Policies (continued)

Impairment of Oil and Gas Properties

The carrying amounts of the Company's oil and natural gas properties included in exploration and evaluation assets and property and equipment are reviewed for indicators of impairment at each reporting date. If indicators of impairment exist, the recoverable amount of the asset is estimated. These indicators include, but are not limited to, extended decreases in prices or margins for oil and natural gas commodities or products, a significant downward revision in estimated reserves or an upward revision in future development costs and changes in the development plans for exploration projects. If indicators of impairment exist, then the oil and natural gas interest's recoverable amount is estimated.

For the purpose of assessing impairments, exploration and evaluation assets and property and equipment are grouped into respective CGUs, each of which is typically defined as a geographical field of development.

Exploration and evaluation assets are assessed for impairment when (i) sufficient data exists to determine technical feasibility and commercial viability and they are reclassified to property and equipment, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Indicators of impairment may include the decision to no longer pursue the evaluation project, an expiry of the rights to explore in an area, or failure to receive regulatory approval. If, at any time, it is determined that the Company has no future exploration plans and commercial production cannot be achieved in relation to an area, the associated costs are written down to the estimated recoverable amount, or fully de-recognized and the amount of the write-down is expensed in profit or loss.

The recoverable amount of a CGU is the greater of its fair value less costs of disposal and its value in use. Fair value is defined as the amount for which the asset could be sold in an arm's length transaction between knowledgeable and willing parties. Unless otherwise indicated, the recoverable amount used in assessing impairment losses is fair value less costs of disposal. Fair value less costs of disposal is determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs, including future development costs. The cash flows are discounted at an appropriate discount rate, which would be applied by a willing market participant. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the CGU in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior years or periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation if no impairment loss had been recognized.

STRATA-X ENERGY LTD.

Notes to the Consolidated Financial Statements

30 June 2018 and 30 June 2017

(Expressed in U.S. Dollars)

3. Summary of Significant Accounting Policies (continued)

Decommissioning Provisions

Decommissioning provisions are recognized for decommissioning and restoration obligations associated with the Company's oil and natural gas interests and are recorded in the period a well or related asset is drilled, constructed or acquired. The best estimate of the expenditure required to settle the present obligation at the statement of financial position date is recorded on a discounted basis using a determined pre-tax risk-free interest rate. The future cash flow estimates are adjusted to reflect the risks specific to the liability. The value of the obligation is added to the carrying amount of the associated exploration and evaluation or property and equipment asset and is depleted or depreciated over the useful life of the asset. The provision is accreted over time through charges to finance expense with actual expenses charged against the accumulated liability. Changes in the future undiscounted cash flows or the discount rate are recognized as changes in the decommissioning provision and related asset. Actual decommissioning expenditures are charged against the liability as the costs are incurred. Any differences between the recorded provision and the actual costs incurred are recorded as a gain or loss in profit or loss.

Foreign Currency Transactions

Transactions in foreign currencies are translated to the functional currency of each subsidiary at exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The financial statements of entities that have a functional currency different from the presentation currency are translated into United States dollars at the exchange rate at the date of the statement of financial position for assets and liabilities, and at the average rate for revenues and expenses. All resulting changes are recognized as other comprehensive income.

Business Combinations

Business combinations are accounted for using the acquisition method when the acquisitions of companies and/or assets meet the definition of a business under IFRS. The identifiable net assets acquired are measured at their fair value at the date of acquisition. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in profit or loss. Transaction costs associated with the acquisition are expensed when incurred.

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(Expressed in U.S. Dollars)

3. Summary of Significant Accounting Policies (continued)

Share-Based Payments

The Company has a Stock Option Plan as described in Note 11 and stock options granted to directors, officers, employees and consultants of the Company are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the options at the grant date using the Black-Scholes option pricing model.

In addition, the Company may grant certain finders warrants in conjunction with equity issues. The Company measures share-based payments to non-employees at the fair value of goods and services received at the date of receipt of the good or service. If the fair value of the goods and services cannot be reliably measured, the value of the equity instrument granted will be used and measured using the Black-Scholes option pricing model.

Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation cost or share issue cost is expensed over the vesting period to profit or loss or equity, respectively, with a corresponding increase in contributed surplus. When stock options or warrants are exercised, the cash proceeds along with the amount previously recorded as share based compensation reserve or warrant reserve are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options or warrants that vest. When stock options or warrants are cancelled, they are treated as if they have vested on the date of cancellation and any cost not yet recognized in profit or loss is expensed immediately.

Joint Arrangements

A portion of the Company's oil and natural gas activities is conducted under joint operating agreements. The Company has assessed the nature of its joint arrangements and determined them to be joint operations. Accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

Revenue Recognition

Revenue from the sale of oil and gas is recognized when title passes to an external party and is measured at the fair value of the consideration received or receivable based on volumes delivered to customers at contractual delivery points and rates.

Equity Instruments

The Company's common shares, warrants and stock options are classified as equity instruments. Incremental costs directly attributable to the issue of common shares, warrants and stock options are recognized as a deduction from equity, net of any tax effects.

The Company recognizes a prepaid reserve when funds have been received in advance of the common shares being issued and the Company has an obligation to only issue the common shares.

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Notes to the Consolidated Financial Statements

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3. Summary of Significant Accounting Policies (continued)

Warrants

Warrants enable shares of the Company to be acquired in the future at fixed prices. Warrants are issued in exchange for goods or services related to finders fees on private placements. Accordingly, these share-based payments have been recorded as equity.

Units

Consideration received on the sale of a unit consisting of a common share and warrant classified as equity are allocated, within equity, to its respective equity accounts on a reasonable basis. Two commonly accepted allocation approaches are the residual method and the relative fair value method. Under the residual method, one component is measured first and the residual amount is allocated to the remaining component. In contrast, under the relative fair value method the total proceeds of the instrument is allocated to the components in proportion to their relative fair values. The Company accounts for the issuance of units using the relative fair value method.

Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument and are measured at fair value on initial recognition of the instrument.

a) Classification and Measurement

The Company's non-derivative financial instruments comprise cash and cash equivalents, accounts receivable, other assets, accounts payable and accrued liabilities, note payable, related party, amounts due to related parties and accrued liabilities.

The Company has designated cash and cash equivalents and other assets as "held for trading" which is measured at fair value through profit or loss.

The Company has designated accounts receivable as "loans and receivables" and accounts payable and accrued liabilities, note payable, related party, amounts due to related parties and accrued liabilities as "financial liabilities measured at amortized cost" whereby these financial instruments are measured at amortized cost at the settlement date using the effective interest method of amortization.

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3. Summary of Significant Accounting Policies (continued)

b) Derivative Financial Instruments

Derivative financial instruments, including embedded derivatives, are recorded at their fair value on the date the derivative contract is entered into. They are subsequently re-measured at their fair value at each statement of financial position date, and the changes in the fair value are recognized in profit or loss. Fair values for derivative instruments are determined using valuation techniques, with assumptions based on market conditions existing at the consolidated statement of financial position date.

c) Impairment

The Company assesses at each statement of financial position date whether there is objective evidence that financial assets, other than those designated as “fair value through profit or loss” are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Objective evidence may include significant financial difficulty of obligor and/or delinquency in payment. When impairment has occurred, the cumulative loss is recognized in profit or loss. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate. Impairment losses may be reversed in subsequent periods.

Loss per Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the period. Diluted loss per share is computed similar to basic loss per share, except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options and warrants if dilutive, using the treasury stock method. Under the treasury stock method, the number of additional shares is calculated by assuming that the outstanding stock options and warrants are exercised and that the proceeds from such exercises are used to acquire shares of common stock at the average market price during the period.

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3. Summary of Significant Accounting Policies (continued)

Income Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and unused tax losses and unused tax credits can be utilized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Finance Income and Expenses

Finance income consists of interest income and is recognized as it accrues in profit or loss using the effective interest method.

Finance expense includes accretion of the discount on decommissioning provisions and interest on the note payable, related party.

Future Changes in Accounting Policies

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

IFRS 9-Financial Instruments ("IFRS 9")

IFRS 9 provides guidance on recognition and measurement and impairment into a single model that has two classifications: amortized cost and fair value. The new standard also requires a single-forward looking "expected-loss" impairment method to be used. The Company has determined that IFRS 9 will not result in any material changes to its classification of financial assets or liabilities, nor will it have a material impact to the measurement and carrying value of the Company's financial instruments. The Company anticipates there will be additional disclosures related to its financial instruments. The standard will come into effect for annual periods beginning on or after January 1, 2018.

STRATA-X ENERGY LTD.

Notes to the Consolidated Financial Statements

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3. Summary of Significant Accounting Policies (continued)

IFRS 15-Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 provides a comprehensive revenue recognition and measurement framework that applies to all contracts with customers. The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company will retrospectively adopt IFRS 15 on January 1, 2018. The Company has completed the review of its various revenue streams and underlying contracts with customers. The Company has concluded that the adoption of IFRS 15 will not have a material impact on the Company's net income and financial position. The Company anticipates there will be additional enhanced disclosures related to revenue.

IFRS 16-Leases ("IFRS 16")

IFRS 16 provides for a single recognition and measurement model for leases, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019. The Company is still finalizing its assessment as to whether or not this standard will have a material impact on the Company's consolidated financial statements.

4. Segment Reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenditures. Segment results, assets and capital expenditures include items directly attributable to a segment as well as those that can be allocated on a reasonable basis, and for which discrete financial information is available. All geographic segments are regularly reviewed by management in order to assess performance and allocate resources. As discussed in Note 2(b) and 6, the Company has begun exploration activity in the Republic of Botswana, Africa.

The Company operates in one industry segment, being the oil and gas industry, in several geographic locations. Segmented information in USD by geographic location is as follows:

As at and for the year ended 30 June 2018:

	Canada	United States	Australia	Botswana	Total
Revenues	\$ -	\$ 53,798	\$ -	\$ -	\$ 53,798
Income (Loss)	\$ (212,115)	\$ (1,449,733)	\$ -	\$ -	\$ (1,661,848)
Non-current Assets	\$ -	\$ 11,295,706	\$ -	\$ 620,802	\$ 11,916,508
Total Assets	\$ -	\$ 11,390,623	\$ 238,050	\$ 620,802	\$ 12,249,475
Total Liabilities	\$ 165,682	\$ 634,650	\$ 203,053	\$ -	\$ 1,003,385

As at and for the year ended 30 June 2017:

	Canada	United States	Australia	Botswana	Total
Revenues	\$ -	\$ 167,264	\$ -	\$ -	\$ 167,264
Income (Loss)	\$ (283,456)	\$ (441,846)	\$ 19,150	\$ -	\$ (706,152)
Non-current Assets	\$ -	\$ 12,339,357	\$ -	\$ 64,678	\$ 12,404,035
Total Assets	\$ 9,138	\$ 13,117,154	\$ 260,396	\$ 64,678	\$ 13,451,366
Total Liabilities	\$ 33,966	\$ 700,106	\$ 49,199	\$ -	\$ 783,271

STRATA-X ENERGY LTD.

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(Expressed in U.S. Dollars)

5. Other Assets

Other assets consist of restricted amounts held by certificates of deposit and amounts held in interest-bearing accounts at state banks as the Company is required by state agencies in California, Texas, and North Dakota to use the funds for potential future remediation of certain properties in these states. The amounts have been classified as non-current as the Company does not expect to complete the remediation in the next 12 months. During the year, the amounts held by state agencies in Texas was released.

6. Exploration and Evaluation Assets

	<u>30 June 2018</u>	<u>30 June 2017</u>
Balance, beginning of year	\$ 64,678	\$ -
Additions	<u>556,124</u>	<u>64,678</u>
Balance, end of year	<u>\$ 620,802</u>	<u>\$ 64,678</u>

As at 30 June 2018 and 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 in Botswana.

In December 2016, the Company entered into a farm-in agreement (“Agreement”) with an arms-length company (“Farmco”) for a 3 stage farm-in over an expected term of 3 years to earn up to 75% of the Serowe coal seam gas project (“CSG Project”) located in 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 pre-empted a third party offer to buy out Farmco’s remaining 25% interest in the CSG Project. The pre-emption 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 paid Farmco AUD\$200,000 in May 2018 and will pay an additional AUD\$200,000 (accrued at 30 June 2018 and included in accounts payable and accrued liabilities) 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 and concurrently the renewed licenses expire in 2020 with two 2-year options for renewal.

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Notes to the Consolidated Financial Statements

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(Expressed in U.S. Dollars)

6. Exploration and Evaluation Assets (continued)

As part of the license renewal, the Company has committed to certain exploratory activity yearly milestones as well as proposed minimum expenditures as follows:

<u>Year ending December 31,</u>		
2018	\$	135,000
2019	\$	250,000
2020	\$	385,000

The Company has recorded approximately \$621,000 of license acquisition costs and other related costs as exploration and evaluation assets at 30 June 2018, including the initial deposit and additional payments required per the above agreement in total of AUD\$550,000.

The Company has not capitalized any general and administrative expenses or interest in the year ended 30 June 2018 and 2017.

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7. Property and Equipment

Cost						
	Balance at 30 June 2016	Additions	Change in Decommissioning Provision	Balance at 30 June 2017	Additions	Balance at 30 June 2018
Oil and gas properties	\$ 13,097,223	\$ 16,209	\$ (70,000)	\$ 13,043,432	\$ 22,375	\$ 13,065,807
Computer equipment 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>\$ 22,375</u>	<u>\$ 13,084,839</u>
Accumulated Depletion, Depreciation, Amortization and Impairment						
	Balance at 30 June 2016	Additions	Balance at 30 June 2017	Additions	Balance at 30 June 2018	
Oil and gas properties	\$ 664,884	\$ 289,475	\$ 954,359	\$ 1,032,281	\$ 1,986,640	
Computer equipment and software	13,206	2,776	15,982	1,858	17,840	
	<u>\$ 678,090</u>	<u>\$ 292,251</u>	<u>\$ 970,341</u>	<u>\$ 1,034,139</u>	<u>\$ 2,004,480</u>	
Net Book Value						
	Balance at 30 June 2017	Balance at 30 June 2018				
Oil and gas properties	\$ 12,089,073	\$ 11,079,167				
Computer equipment and software	3,050	1,192				
	<u>\$ 12,092,123</u>	<u>\$ 11,080,359</u>				

The Company has not capitalized any general and administrative expenses in the years ended 30 June 2018 or 2017.

During the year ended 30 June 2017, the Company disposed of its working interest in a property with a carrying value of \$nil to two officers of the Company for a royalty interest on the lease. No gain or loss was recorded as the fair value of the royalty interest on the lease was estimated to be \$nil.

The calculation of depletion, depreciation and amortization expense for the year ended 30 June 2018 included future development costs of approximately \$5.5 million (2017 - \$5.5 million) associated with the development of the Company's proved and probable reserves.

STRATA-X ENERGY LTD.

Notes to the Consolidated Financial Statements

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(Expressed in U.S. Dollars)

7. Property and Equipment (continued)

Impairment

(a) Impairment – 30 June 2018

The Company assesses many factors when determining if an impairment test should be performed. At 30 June 2018, the Company determined that impairment indicators existed for the Company's CGUs as a result of limited Company capital activities and a decrease in production for the year. At 30 June 2018 recoverable amounts for the California and Illinois CGUs exceeded the Company's carrying value for these oil and gas properties and management determined no impairment loss was required based on the assessment performed.

The recoverable amounts of specific CGUs were estimated at the fair value less costs of disposal based on the net present value of the before tax future net cash flows from oil and natural gas proved and probable reserves using forecasted prices published by the Company's external reserve evaluators at 30 June 2018 based on total proved and probable reserves estimated by the Company's external reserve evaluators. The future net cash flows for all impairment test calculations performed were discounted at a rate of 10% per annum. The estimation of proved and probable reserves and related net cash flows is inherently subjective and involves considerable estimation uncertainty.

Key assumptions used in the determination of the recoverable amounts of each CGU includes commodity prices and discount rates applied to cash flows from proved and probable reserves. An increase in the assumed discount rate by 10% over the life of the reserves independently would not result in an impairment loss for the year ended 30 June 2018.

The following represents the forecasted prices used to determine recoverable amounts in the 30 June 2018 impairment test:

<u>Calendar year</u>	<u>Average USD price per barrel (WTI Index)</u>
2018 (6 months)	\$66.50
2019	\$68.50
2020	\$71.93
2021	\$75.52
2022	\$77.03
2023	\$78.57
2024	\$80.14
2025 and thereafter	2% escalation

STRATA-X ENERGY LTD.

Notes to the Consolidated Financial Statements

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7. Property and Equipment (continued)

Impairment (continued)

(b) Impairment – 30 June 2017

The Company assesses many factors when determining if an impairment test should be performed. At 30 June 2017, the Company determined that impairment indicators existed for the Company's CGUs considering the year over year decline in the forecast commodity prices as published by the Company's external reserve evaluators. At 30 June 2017 recoverable amounts for the California and Illinois CGUs exceeded the Company's carrying value for these oil and gas properties and management determined no impairment loss was required based on the assessment performed.

The recoverable amounts of specific CGUs were estimated at the fair value less costs of disposal based on the net present value of the before tax future net cash flows from oil and natural gas proved and probable reserves using forecasted prices published by the Company's external reserve evaluators at 30 June 2017 based on total proved and probable reserves estimated by the Company's external reserve evaluators. The future net cash flows for all impairment test calculations performed were discounted at a rate of 10% per annum. The estimation of proved and probable reserves and related net cash flows is inherently subjective and involves considerable estimation uncertainty.

Key assumptions used in the determination of the recoverable amounts of each CGU includes commodity prices and discount rates applied to cash flows from proved and probable reserves. An increase in the assumed discount rate by 10% over the life of the reserves independently would not result in an impairment loss for the year ended 30 June 2017.

The following represents the forecasted prices used to determine recoverable amounts in the 30 June 2017 impairment test:

<u>Calendar year</u>	<u>Average USD price per barrel (WTI Index)</u>
2017 (6 months)	\$50.00
2018	\$55.00
2019	\$60.00
2020	\$65.00
2021	\$67.50
2022	\$70.00
2023	\$72.50
2024 and thereafter	2% escalation

In performing the impairment tests, the benchmark prices are adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality.

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8. Amounts Due to Related Parties

Amounts due to companies controlled by directors of the Company are unsecured, bear no interest and have no specific terms of repayment. See further discussion of related party amounts in Note 16.

9. Note Payable, Related Party

The Company entered into a note agreement for proceeds of AUD\$200,000. The lender is an entity that is owned by the chairman of the Board of Directors of the Company. The note bears interest at 7.5% per annum, is unsecured, and can be repaid at any time with no penalty but is due on 31 December 2018. At 30 June 2018, interest amounts accrued of \$2,000 are included in accounts payable and accrued liabilities.

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10. Decommissioning Provisions

The future decommissioning liabilities are determined by management and are based on the Company's net ownership interest, the estimated future costs to reclaim and abandon the wells, and the estimated timing of when the costs will be incurred.

	<u>30 June 2018</u>	<u>30 June 2017</u>
Balance, beginning of year	\$ 513,150	\$ 633,000
Change in discount rate and timing of cash flows	-	(70,000)
Additions	-	15,000
Dispositions / settlements	13,176	(41,976)
Decommissioning expenditures	(26,800)	(29,400)
Accretion expense	11,000	6,526
	<u>\$ 510,526</u>	<u>\$ 513,150</u>

The Company has calculated the fair value of decommissioning provisions using a discount rate of 2.7% (2017 – 2.7%) and an estimated inflation rate of 1.8% (2017 – 1.8%). The estimated undiscounted future cash flows to settle decommissioning provisions are \$671,000 (30 June 2017 - \$728,000) and are expected to be realized over a period defined as the remaining useful life in the Company's most recent reserve report which is approximately 10 to 20 years.

The change in the discount rate used for calculating the decommissioning liability during the year ended 30 June 2017 resulted in a decrease to the liability and a corresponding decrease to property and equipment of \$70,000.

The fair value of certain oil and natural gas properties of the Company was determined to be \$nil during the year ended 30 June 2017. Accordingly, the change in discount rate and estimates related to these properties was recorded as an adjustment to impairment loss for the year ending 30 June 2017 of \$15,000.

The risk-free rate used in the calculation of the net present value has a significant impact on the carrying value of decommissioning liabilities. A 0.5% increase in the risk-free rate would decrease the decommissioning liability by \$22,000 at 30 June 2018.

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11. 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 shares.

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 30 June 2018	<u>89,825,208</u>	<u>\$ 36,955,438</u>

Prepaid Share Capital Reserve

As at 30 June 2018, the Company had received proceeds of CDN\$300,000 (US\$222,137) and incurred share issuance costs of CDN\$18,000 (US\$13,328) in relation to the issuance of 6,000,000 Chess Depository Interest ("CDI"), or common shares. The CDI, or common shares, were not issued until subsequent to year end (Note 20(b)) and as a result they have been presented as a prepaid share capital reserve in the statement of financial position.

Share Consolidation

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

Subsequent to year-end, the Company completed a further share consolidation (Note 20(a)).

Common Stock Offerings

On 2 December 2016, the Company completed a private placement of 8,700,000 CDI, or common shares, as the first tranche of an overall capital raise. The second tranche closed on 22 December 2016 with the placement of an additional 22,350,000 CDI, or common shares. Gross proceeds of CDN\$1,519,888 (US\$1,132,322) were realized from the placements, and placement costs of CDN\$193,636 (US\$145,431) were incurred including \$93,002 of costs attributable to the value of finder warrants issued. Of the second tranche, two directors of the Company subscribed for a total of 7,000,000 CDI, or common shares for CDN\$342,647 (US\$254,336).

STRATA-X ENERGY LTD.

Notes to the Consolidated Financial Statements

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11. Share Capital (continued)

Warrants

Finder warrants

A total of 3,881,250 finder warrants were issued on 9 January 2017 to the joint lead managers as placement fees for the private placements of CDIs closed on 2 December 2016 and 22 December 2016, with each finder warrant exercisable at AUD\$0.07 per share to acquire one CDI of the Company until 9 January 2020, at which time the warrants expire. The fair value of the finder warrants of AUD\$126,405 (US\$93,002) was recorded as share issuance costs during the year ended 30 June 2017.

The finder warrants issued during the year ended 30 June 2017 were measured using the Black Scholes model with the following assumptions:

	30 June 2017
Share price (AUD)	\$0.06
Risk-free rate	0.84%
Expected life (years)	3.0
Expected volatility	91.7%
Dividend yield	0.0%
Forfeiture rate	0.0%

Expected volatility was determined based on the Company's historical volatility.

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11. **Share Capital (continued)**

Warrants (continued)

Activity related to the number of warrants outstanding and exercisable for the Company for the years ended 30 June 2018 and 2017 is as follows:

	30 June 2018			30 June 2017		
	Number	Weighted Average Exercise Price	Currency	Number	Weighted Average Exercise Price	Currency
Balance, beginning of year	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 year	<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 finder warrants outstanding at 30 June 2018:

Exercise Price	Currency	Number Outstanding	Weighted Average Contractual Life (years)
\$ 0.07	AUD	3,881,250	1.53

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

The Company has established a stock option plan for the benefit of directors, officers and technical consultants of the Company.

Pursuant to the Stock Option Plan, 10% of the issued and outstanding common shares have been reserved for options to be granted to the directors and officers of the Company. 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.

The following table summarizes the activity of the stock options. The exercise price of the various issuances of options over time are in Canadian dollars and assumes an exchange ratio of 1.0 \$AUD to \$CAD.

	30 June 2018		30 June 2017	
	Number of Options	Weighted Average Exercise Price (CAN)	Number of Options	Weighted Average Exercise Price (CAN)
Outstanding, beginning of year	4,940,000	\$ 0.59	4,956,667	\$ 0.60
Granted	3,800,000	0.05	-	-
Expired	(340,000)	0.54	(16,667)	1.50
Outstanding, end of year	<u>8,400,000</u>	<u>\$ 0.35</u>	<u>4,940,000</u>	<u>\$ 0.59</u>
Exercisable, end of year	<u>5,550,000</u>	<u>\$ 0.50</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.

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11. Share Capital (continued)

Stock Option Plan (continued)

The following table summarizes information on stock options outstanding and exercisable at 30 June 2018:

<u>Exercise Price</u>	<u>Currency</u>	<u>Number Outstanding</u>	<u>Number Exercisable</u>	<u>Weighted Average Contractual Life (years)</u>
\$ 0.90	CDN	1,266,667	1,266,667	2.63
\$ 1.02	CDN	283,333	283,333	4.23
\$ 1.23	CDN	250,000	250,000	0.31
\$ 0.36	AUD	2,800,000	2,800,000	2.26
\$ 0.05	CDN	<u>3,800,000</u>	<u>950,000</u>	4.47
		<u>8,400,000</u>	<u>5,550,000</u>	

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

	30 June 2018
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 share-based compensation as it is expected that all officers, directors, employees and consultants will continue with the Company over the vesting period.

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11. **Share Capital (continued)**

Stock Option Plan (continued)

The fair value recognized for stock options during the year ended 30 June 2018 is \$32,616 (2017 - \$59,919) and is included in general and administrative expense with a corresponding adjustment to share based compensation reserve.

12. **Loss per Common Share**

The basic loss per common share is based on the weighted average number of common shares outstanding for the year ended 30 June 2018 and 2017 of 89,825,208 and 75,414,921, respectively. The stock options and finders and share purchase 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.

13. **Supplemental Cash Flow Information**

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

	Year ended 30 June	
	2018	2017
	<u> </u>	<u> </u>
Accounts receivable	\$ 42,528	\$ 17,820
Prepays and other	(7,280)	(3,573)
Accounts payable and accrued liabilities	130,974	(73,018)
Amounts due to related parties	<u>(58,557)</u>	<u>(89,945)</u>
	<u>\$ 107,665</u>	<u>\$ (148,716)</u>
Operating activities	\$ (42,426)	\$ (148,716)
Investing activities	148,091	-
Financing activities	<u>2,000</u>	<u>-</u>
	<u>\$ 107,665</u>	<u>\$ (148,716)</u>

Non-cash transactions excluded from the statements of cash flows (note 11)

(b) Cash and cash equivalents is comprised of:

	As at 30 June	
	2018	2017
	<u> </u>	<u> </u>
Balances with banks in current accounts	\$ 270,268	\$ 297,231
Money market savings account	<u>26,038</u>	<u>678,211</u>
	<u>\$ 296,306</u>	<u>\$ 975,442</u>

(c) Net finance expense for the year ended 30 June 2018 includes \$11,000 in accretion expense (2017 – \$6,526) (Note 10), \$2,000 in interest expense on note payable, related party net of finance income of \$4,246 (2017 - \$4,436).

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14. Income Taxes

The components of temporary differences that give rise to deferred tax assets and liabilities are as follows:

	Year ended 30 June	
	<u>2018</u>	<u>2017</u>
Deferred tax assets:		
Property and equipment	\$ (1,691,000)	\$ (1,964,000)
Decommissioning provisions	135,000	192,000
Non-capital losses	10,006,000	12,198,000
Other	17,000	56,000
Tax assets not recognized	<u>(8,467,000)</u>	<u>(10,482,000)</u>
Deferred income taxes	<u>\$ -</u>	<u>\$ -</u>

As at 30 June 2018, the Company has non-capital loss carryforwards by domestic country which will expire as follows:

	<u>United States (USD\$)</u>	<u>Canada (CAD\$)</u>	<u>Australia (AUD\$)</u>
2028	\$ -	\$ 24,000	\$ -
2029	-	30,000	-
2030	-	44,000	-
2031	906,000	290,000	-
2032	1,768,000	392,000	-
2033	5,463,000	1,406,000	6,000
2034	2,119,000	1,420,000	23,000
2035	11,677,000	1,547,000	7,000
2036	6,217,000	969,000	15,000
2037	3,518,000	772,000	-
2038	<u>418,000</u>	<u>285,000</u>	<u>75,000</u>
	<u>\$ 32,086,000</u>	<u>\$ 7,179,000</u>	<u>\$ 126,000</u>

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14. Income Taxes (continued)

A reconciliation of income taxes at statutory rates is as follows:

	Year ended 30 June	
	<u>2018</u>	<u>2017</u>
Loss before income taxes	\$ (1,661,848)	\$ (706,152)
Statutory tax rate	<u>26.50%</u>	<u>37.50%</u>
Expected income tax recovery	(440,000)	(265,000)
Non-deductible stock-based compensation	9,000	19,000
Change in tax assets not recognized	(2,015,000)	1,018,000
Effect of tax return filings	(246,000)	(760,000)
Effect of tax rate difference and other	<u>2,692,000</u>	<u>(12,000)</u>
Net income tax recovery	<u>\$ -</u>	<u>\$ -</u>

The decrease in the statutory tax rate from prior year relates to a decrease in the federal rate from 34% to 21%

15. Oil and Gas Revenue

	Year ended 30 June	
	<u>2018</u>	<u>2017</u>
Oil and gas sales	\$ 60,214	\$ 196,052
Less: royalties	<u>(6,416)</u>	<u>(28,788)</u>
	<u>\$ 53,798</u>	<u>\$ 167,264</u>

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16. Related Party Transactions

The Company had the following related party transactions, other than those transactions disclosed elsewhere in the financial statements.

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 year ended 30 June 2018, the Company incurred approximately \$48,800 (2017 - \$48,800) in costs payable to the outside firm for accounting services and is included in general and administrative expenses. At 30 June 2018, amounts owing and included in due to related parties is \$Nil (2017 - \$4,100).

Total compensation paid to key management personnel which includes both directors and officers identified above as well as incentive stock compensation related to the granting and vesting of stock options during the period, was approximately \$270,400 (2017 - \$355,500) for the year ended 30 June 2018.

Total salary expenses for employees, directors and management included in general and administrative expenses on the statement of loss for 2018 is \$245,500 (2017 - \$255,500) and the capitalized portion is \$Nil (2017 - \$Nil).

17. Financial Instruments

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

The following provide an analysis of financial instruments that are measured at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are not observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data and are significant to the overall fair value measurement.

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17. Financial Instruments (continued)

The carrying value of accounts receivable, accounts payable and accrued liabilities, note payable, related party and amounts due to related parties included in the statement of financial position approximate fair value due to the short-term nature of those instruments and the manner in which they are settled. The fair value of these instruments is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

As at 30 June 2018, the Company had only cash and cash equivalents and other assets as “fair value through profit or loss”, measured at fair value – Level 1. In addition, the Company used a Level 3 measure in determining the recoverable amount of property and equipment at 30 June 2018 and 2017.

Financial risk management

The Company's activities are exposed to a variety of financial risks: interest rate risk, market risk, credit risk, liquidity risk, commodity price risk and foreign exchange risk. The Company's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Company's financial results. Risk management is carried out by financial management in conjunction with overall corporate governance. There were no changes to the Company's risk management policies or processes during the year ended 30 June 2018 and 2017.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economy. The Company continues to monitor its actual and forecast cash flows to review whether there are adequate reserves to meet its financial obligations on an ongoing basis. As at 30 June 2018, the Company had a negative working capital of approximately \$96,844. The current commodity price environment has negatively impacted earnings and operating cash flow for the fiscal year.

The Company continues to focus on minimal capital activities other than advancing the CSG Project (Note 6), reducing operating and general and administrative costs and enhancing operational efficiencies to preserve the Company's financial health and sustainability in the current price environment. As discussed in Note 1, management continues to seek additional means to sustain the Company's financial position and liquidity including but not limited to investigating potential partnership, merger and/or joint venture opportunities and acquiring and disposing of oil and natural gas properties and, as circumstances and conditions dictate, the successful completion of further private placements. As discussed in Note 20, subsequent to the year ended 30 June 2018, the Company was successful in completing a private placement generating \$942,000 after placement costs. These funds will be used to reduce the working capital deficiency as well as support ongoing operational and general and administrative obligations and continue the development of the CSG Project. 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.

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17. Financial Instruments (continued)

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

	Less than a year	After 5 years
Accounts payable and accrued liabilities	\$ 273,220	\$ -
Note payable, related party	148,091	-
Amounts due to related parties	8,500	-
Accrued liabilities	-	63,048
	<u>\$ 429,811</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 (Note 5).

The Company is also subject to commitments as disclosed in Note 19. During the year ended 30 June 2017, the Company recognized a gain on the extinguishment of certain trade payables of \$212,798 and has included the amount as other income in the statement of loss. Management has determined that these obligations no longer exist at 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, foreign exchange risk and commodity price risk. There is no significant change to the Company's exposure to market risks since 30 June 2017.

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.

The Company is exposed to interest rate risk arising from fluctuations in interest rates related to its notes payable, related party. Management does not believe this risk is significant given the short term of the note.

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17. Financial Instruments (continued)

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, the Australian dollar and the Botswana dollar will not adversely affect the consolidated financial statements. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

As at 30 June 2018, \$2,282 of accounts receivable, and \$17,591 of accounts payable are exposed to fluctuations with the Canadian dollar. As at 30 June 2018, \$238,051 of cash and cash equivalents, \$203,053 of accounts payable and accrued liabilities and \$148,091 of note payable, related party are exposed to fluctuations with the Australian dollar. As at 30 June 2018, there are no financial instruments exposed to fluctuations with the Botswana dollar. Management does not believe this risk is significant and the sensitivity to fluctuations in foreign exchange rate changes is minimal.

Commodity price risk

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. The nature of the Company's operations results in exposure to fluctuations in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar, but also world economic events that dictate the levels of supply and demand. The Company does not use derivative instruments to reduce its exposure to commodity price risk.

Credit risk

The Company's exposure to credit risk relates to cash and cash equivalents, accounts receivables and other assets and arises from the possibility that the third party does not satisfy its contractual obligations. The Company minimizes its exposure to credit risk 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 receivables and records an allowance for doubtful accounts when determined necessary. The Company's maximum exposure to credit risk is equal to the carrying value of these financial assets being \$529,481 at 30 June 2018 (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 30 June 2018, 97% (2017 – 95%) of carrying value relates to amounts held in chartered banks.

As of 30 June 2017, the Company recorded an allowance for doubtful accounts of \$156,090 related to an amount due from a project operator that was greater than 90 days outstanding. During the year ended 30 June 2018, the allowance was taken against the amount due. At 30 June 2018, there are no amounts past due included in accounts receivable.

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18. Capital Management

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

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

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

The Company is not subject to externally imposed capital requirements other than as disclosed in Note 5.

Total capital managed is as follows:

	<u>2018</u>	<u>2017</u>
Shareholders' equity	<u>\$ 11,246,090</u>	<u>\$ 12,668,095</u>

Total capital managed decreased from prior year due to the overall use of cash in operating activities for the year as well amounts expended on exploratory activities in Botswana.

19. Commitments

(a) Office space

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

20. Subsequent Events

- (a) Effective 16 July 2018, the shareholders of the Company approved a 3 for 5 share consolidation prior to the private placement as per Note 20(b). The exercise price of outstanding stock options and warrants was proportionately adjusted based upon the consolidation ratio.
- (b) On 16 July 2018, the Company completed a private placement of 10,900,000 CDI or common shares as the first tranche of an overall capital raise. The second tranche closed on 4 September 2018 with the placement of an additional 16,200,000 CDI, or common shares. Gross proceeds of \$1,003,000 were realized from the placements, and placement costs of \$61,000 were incurred in addition to the issuance of 210,000 common shares issued to the broker as finder fees. At 24 September 2018, the Company has 81,204,984 common shares outstanding post-share consolidation.