# STRATA-X ENERGY

# Management Discussion and Analysis

## For Year Ended 30 June 2018

## Quarter Highlights

- **Secured commitments for A$1.355 million private placement at A$0.05 per CDI following a 5 for 3 share Consolidation.**
- **Company submitted its Environmental Management Plan allowing Strata-X to drill and production test up to 20 wells - Approval expected in Q4 2018.**
- **Strata-X internal interpretation and mapping integrating public data has high-graded an area within the Serowe CSG fairway in central Botswana.**
- **Attributes of the high graded area are similar to the Walloon CSG play in Queensland, Australia.**
- **MHA Petroleum Consultants have calculated a Prospective Resource of 3.3 TCF (Trillion Cubic Feet) net to Strata-X over the Serowe CSG Prospect. (1)**

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

*(1) Prospective Resources figures are from an audit report prepared by MHA Petroleum Consultant, a qualified reserves auditor, dated and effective 26 March 2018 following their audit in accordance with the COGE Handbook of the available technical data including the geological interpretation, information from relevant nearby wells, analogous reservoirs and the proposed program for the Project, prepared and presented to MHA by Strata-X. Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development project. Prospective Resources have both an associated chance of discovery and a chance of development. A high level of uncertainty exists with the Prospective resources given the lack of historical drilling, available data and other productivity factors that limit the economic viability of coal seam gas deposits. The Report reviewed only Prospective Resources as the project is not sufficiently developed to assign Contingent Resources or additional Petroleum Reserves to it. Stated Prospective Resource figures are Best Estimate – undiscovered natural gas quantities and net of a royalty and are shown at a 100% working interest in the Project. The total costs associated with establishing the commerciality of this project are unknown at this time given the early stage of the Project's development. There is no certainty that any portion of the resources will be discovered, if discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.*

Traded on the Australian Securities Exchange (ASX) under the symbol "SXA" and on the TSX Venture Exchange (TSX.V) under the symbol "SXE"

STRATA-X ENERGY LIMITED
ARBN - 160 885 343

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- Australian Securities Exchange (ASX)

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Chairman of the Board of Directors

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President and Managing Director

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

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

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

### Company Management

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# Disclaimer

The following Management Discussion and Analysis (the "MD&A") for Strata-X Energy Ltd. (hereinafter, "Strata-X Energy", "Company" or "Strata-X") prepared as of 24 September 2018, should be read together with the consolidated financial statements for the year ending 30 June 2018 and related notes appended thereto, which are prepared in accordance with International Financial Reporting Standards. All amounts are stated in United States dollars unless otherwise indicated. Statements in this report that are not historical facts are forward looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements.

Certain information contained in this MD&A constitutes "forward-looking information" within the meaning of applicable Canadian securities legislation. The use of any of the words "anticipate", "continue", "estimate", "intend", "potential", "expect", "may", "will", "project", "proposed", "should", "believe" and similar expressions are intended to identify forward-looking information. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. In addition, this MD&A may contain forward-looking information attributed to third party industry sources. The Company believes that the expectations reflected in such forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this MD&A should not be unduly relied upon. Such information speaks only as of the date of this MD&A or such other date indicated herein. In particular, this MD&A contains forward-looking information pertaining to the following: expectations regarding growth of the Company; the timing and location of drilling or other operational activities; oil and natural gas production estimates and targets; oil and natural gas production levels and sources of their growth; estimates of resource potential of targets, including without limitation, statements regarding BOE/d production capabilities; quantity of reserves and resources relating to the Company and its assets and its value; capital expenditure programs and estimates relating to timing, cost and cash flow generation related to these programs; size of the Company's oil and natural gas reserves and resources; the performance characteristics of the Company's oil and natural gas properties; projections of market prices for oil and natural gas and exploration, development and production costs; supply and demand for oil and natural gas; expectations regarding the ability to raise capital and continually add to reserves through exploration and development and, if applicable, acquisitions; treatment under governmental regulatory regimes and tax laws; and, the use of financing funds by the Company.

With respect to forward-looking information contained in this document, the Company has made assumptions regarding, among other things: timing and ability of the Company to obtain all necessary environmental and regulatory approvals relating to operations; the recoverability of the Company's oil and natural gas reserves and resources; interest rates; exchange rates and the futures prices of oil and natural gas; operating and capital costs; the Company's ability to generate sufficient cash flow from operations and to access capital markets to meet its future obligations; the Company's ability to attract and retain qualified personnel; the ability of the Company to successfully market its oil and natural gas products and the continuing demand for oil and natural gas; and stability of general economic and financial market conditions.

The Company's actual results could differ materially from those anticipated in such forward-looking information as a result of the risk factors set forth below and in the Company's annual information form dated 24 September 2018 including: volatility in market prices for oil and natural gas; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves and resources; risks and uncertainties associated with the Company's oil and natural gas and development program; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; incorrect assessments of the value of acquisitions and exploration and development programs; adverse claims made in respect of the Company's properties or assets; failure to engage or retain key personnel; geological, technical, drilling and processing problems, including the availability of equipment and access to properties; risks and uncertainties relating to hydraulic fracturing and the enactment of, or changes to, regulations and legislation in relation to hydraulic fracturing; imprecision in estimating capital expenditures and operating expenses; the expiry of leases and the loss of drilling prospects due to the expiry of leases; fluctuations in foreign exchange rates and stock market volatility; general economic and business conditions in North America and elsewhere; environmental risks and hazards; risks inherent in the exploration, development and production of oil and natural gas which may create liabilities to the Company in excess of the Company's insurance coverage, if any; uncertainties associated with changes in legislation including, but not limited to, changes in income tax laws and to oil and natural gas royalty frameworks; ability to obtain regulatory approvals; risks and uncertainties associated with liquidity and capital resources and requirements; and other factors referenced at "Risk Factors' in the Company's annual information form dated 24 September 2018.

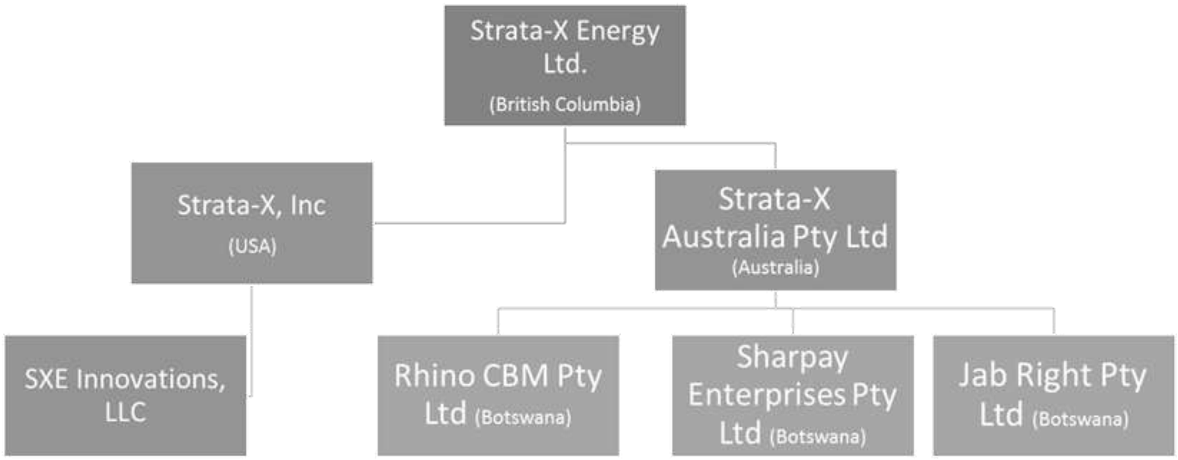
These factors are not, and should not be construed as being exhaustive. In addition, information relating to "reserves" or "resources" is deemed to be forward-looking information, as it involves an implied assessment, based on certain estimates and assumptions that the reserves and resources described can be profitably produced in the future. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. The Company does not undertake any obligation to publicly update or revise any forward-looking information after the date of this MD&A to conform to actual results or to changes in the Company's expectations except as otherwise required by applicable Canadian securities legislation.

Strata-X Energy Ltd, together with its wholly-owned subsidiaries, Strata-X, Inc. and Strata-X Australia Pty Ltd, is an independent oil and gas exploration company listed on the TSX Venture Exchange (TSX-V) under the symbol

"SXE" and the Australian Securities Exchange (ASX) under the symbol "SXA". Incorporated in British Columbia, Canada, Strata-X Energy has a diversified portfolio of high growth potential petroleum projects. The Company's strategy is to discover and develop oil and gas prospects with relatively low entry costs, a meaningful acreage position and a large working interest so as to provide shareholders the opportunity for substantial growth.

In January 2017, Rhino CBM (Proprietary) Limited ("Rhino") was incorporated in accordance with the Companies Act of the Republic of Botswana for the purpose of facilitating a coal seam gas ("CSG") exploration and development project known to the Company as the 'Serowe Gas Project' or 'Serowe CSG Project'. In January 2018, the Rhino licenses were transferred to two new 100% Company owned Botswana subsidiaries, known as Sharpay Enterprises Pty Ltd and Jab Right Pty Ltd, to hold the CSG prospecting licenses in the Republic of Botswana. The shell company Rhino currently isn't being used by the Company. In 2018, the Company formed a 100% owned USA subsidiary to Strata-X, Inc, called, SXE Innovations, LLC to hold and own USA and foreign patents for innovations in oil and gas field equipment.

The corporate structure of the Company is as follows:



# Company Outlook

An active 2018-2019 appraisal programme is planned for the Serowe Gas Project, where the Company retains a 100% interest in 680,000 acres in the heart of the Kalahari Basin. The 3.34 Tcf Prospective Resource tenement position directly offsets projects approved for commercial CSG development. The Serowe Gas Project will be the growth driver for the Company in 2018 and beyond as it executes on a staged exploration plan to delineate and prove the CSG resource. The initial focus of the Company's 2018 appraisal programme will be to production-test direct offset areas within the Company identified high-grade area, where ASX listed peers have converted more than 3 TCF of prospective resources into contingent resources.

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

Strata-X continues to review its development options in the Illinois Basin where the Company has 2P reserves of 1.332 million barrels net.* The Company plans to either bring projects forward in the Illinois Basin over the next year or seek to farm out the opportunities providing Strata-X shareholders upside value. Consistent with the above approach, the Company is continuously reviewing project opportunities that will be accretive and complimentary to management's skillset and build shareholder value.

For the quarter ended 30 June 2018, the Company invested ~USD$4,000 in the Illinois Basin Oil Project, principally on project maintenance and ~USD$344,916 into the Serowe CSG Project mainly on buy out payments and expenses related to completing the EMP.

*Information originally appears in the Company's NI 51-101 Report for FYE 2018 which is available for review at www.strata-x.com

## Production Summary

For the three months ended 30 June 2018, oil production to the Company's net revenue interest was down 84% to 67 barrels (bbls) compared to 424 bbls for the three months ended 30 June 2017. The decrease in oil production is attributable to the Burkett 5-34HOR being offline. For each of the three month periods ended 30 June 2018 and 30 June 2017, no natural gas was sold.

For the twelve months ended 30 June 2018, oil production to the Company's net revenue interest was down 79% to 723 bbls compared to 3,419 bbls for the twelve months ended 30 June 2017. The Burkett 5-34HOR was substantially the only well on production for the Company during the period with the exception of insignificant production from minor vertical wells. For each of the twelve month periods ended 30 June 2018 and 30 June 2017, no natural gas was sold.

Total revenue for the three months ended 30 June 2018 was $4,480 compared to $26,996 for the three months ended 30 June 2017, a decrease of 83%. The average daily production for the Company during the three months ended 30 June 2018 was less than one barrel of oil per day at an average realized sale price of $66.14 per barrel of oil. Royalties per barrel of oil averaged $9.90 (~15%), with production operating expenses for the period of $33.16 per barrel of oil. The netback received by the Company per barrel of oil sold during the three months ended 30 June 2018 was ($23.08). The high lease operating cost per barrel of oil, is attributable to expenditures related to ongoing repairs and maintenance of well that were experiencing production issues or are currently shut-in.

Total revenue for the 12 months ended 30 June 2018 was $53,798 compared to $167,264 for the twelve months ended 30 June 2017 a decrease of 67.8%. This decrease is attributable to lower production volumes. The average daily production for the Company during the twelve months ended 30 June 2018 was 1.98 bbls of oil at an average realized sale price of $54.34 per barrel of oil. Royalties per barrel of oil averaged $8.85, with production operating expenses for the period of $58.80 per barrel of oil. The netback received by the Company per barrel of oil sold during the twelve months ended 30 June 2017 was ($13.31).

## Tenements

| Project | Location | % Interest | Net Acres |
|---|---|---|---|
| Serowe CSG[1] | R. Botswana | 100% | 680,000 |
| Illinois Oil | Illinois, USA | 100% | 1,400 |
| Eagle | California, USA | 23.9% | 770 |
| **Total** | | | **682,170** |
| | | | |

During the quarter ended 30 June 2018, 67 net acres were dropped from the Illinois Oil Project. No further reductions of Strata-X tenement holdings are expected in calendar year 2018.

**Features of Serowe CSG Project – Republic of Botswana**

- **Serowe CSG Project is a 100% owned 680,000 acre coal seam gas project in Botswana.**
- **Active 2018-2019 appraisal programme planned.**
- **Located in the heart of the Kalahari CSG Fairway.**
- **Environmental Management Plan submitted for approval that will allow Strata-X to drill and production-test up to 20 wells; approval expected in Q4 2018.**
- **Strata-X has substantial land holdings within the internally mapped high-grade area.**
- **MHA Petroleum Consultants have calculated a Prospective Resources of 3.3 TCF (Trillion Cubic Feet) net to Strata-X over the Serowe CSG Prospect.** (1)
- **Ample tenement term to establish production; tenement active into 2025.**

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

The Serowe project is located in the Kalahari Basin CSG fairway in Botswana Africa, and offsets tenements of ASX peer TLOU (ASX:TOU). As announced on 2 January 2018, the Company pre-empted a third party offer to buy a 25% interest in those licenses totaling 273,000 acres with a 1.4Tcf Prospective Resource(1) and on March 6, 2018 the preemptive transaction was closed. As of the issuance of this report, all payments related to the buy-out have been made.

In January 2018, the Company's Prospecting Licenses held in the Republic of Botswana, covering the Serowe CSG Project, were re-issued until the end of 2025 opening the door to an active 2018 appraisal programme. In March 2018, the Company acquired two new Prospecting Licenses for its Serowe CSG Project covering 406,735 acres. In total, the Company holds approximately 680,000 acres in the 100% owned Serowe Gas Project. With the addition of the offsetting prospecting licenses acquired in March 2018, the Company increased the Prospective Gas Resources in the Serowe CSG Project, located within the Botswana CSG fairway, to 3.3 TCF.

Strata-X currently holds the tenements through its Republic of Botswana subsidiaries, Sharpay Enterprises Pty Ltd. and Jab Right Pty Ltd.

The Company initiated environmental surveys to complete an Environmental Management Plan ("EMP") for its 2018-2019 drilling and testing programme in February 2018 with the selection of EcoSurv Environmental Consultants of Gaborone, Botswana. EcoSurv has extensive experience in environmental management surveys and plans in Botswana in both the energy and mining arenas. In June 2018, Strata-X submitted the final EMP report, and it is expected that final approval will be granted in the fourth quarter of 2018. EcoSurv has completed other CSG plans which should serve the Company's efforts well and provide a timely report for approval by the Government.

Upon approval of the EMP, the Company will move forward with an active drilling and testing programme. The appraisal program is designed to prove commercial completion methods and convert resources to reserves in a Company-interpreted high-graded area within the CSG fairway. Within the high-graded area, some previously drilled wells flowed or bubbled free gas from the target coal reservoir. This can only occur with 100% gas saturations. The target coal seam within the sweet spot ranges from 8 to over 12 metres in thickness.

To further compliment the high-graded area appraisal, the Company plans to apply the latest completion and production methods designed to yield commercial gas flow rates. The Company has access to the resources of Wellpro Services, a private Queensland based service company with expertise in CSG well completions and production methods. Wellpro has proprietary methods and equipment designed to minimize the time to commercial gas flow rates which the Company intends to apply to the target coal seam within the high-graded area. The Company also intends to use the services of QTEQ, a service company that has recently developed specialized wireline logging, to help fast track reserve certification.

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

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

*(1)Prospective Resources figures are from an audit report prepared by MHA Petroleum Consultant, a qualified reserves auditor, dated and effective 26 March 2018 following their audit in accordance with the COGE Handbook of the available technical data including the geological interpretation, information from relevant nearby wells, analogous reservoirs and the proposed program for the Project, prepared and presented to MHA by Strata-X. Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development project. Prospective Resources have both an associated chance of discovery and a chance of development. A high level of uncertainty exists with the Prospective resources given the lack of historical drilling, available data and other productivity factors that limit the economic viability of coal seam gas deposits. The Report reviewed only Prospective Resources as the project is not sufficiently developed to assign Contingent Resources or additional Petroleum Reserves to it. Stated Prospective Resource figures are Best Estimate – undiscovered natural gas quantities and net of a royalty and are shown at a 100% working interest in the Project. The total costs associated with establishing the commerciality of this project are unknown at this time given the early stage of the Project's development. There is no certainty that any portion of the resources will be discovered, and if discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.*

## Illinois Basin – USA

In December 2014, the Company drilled the Blue Spruce # 1, its first well in a multi-well drilling program in the Illinois Basin. The well, which reached a total depth of 3,280 feet, encountered multiple oil and gas shows in the targeted shallow Mississippian formations. The Company elected to case the well with 5.5-inch casing before releasing the drilling rig.

In January 2015, the Company mobilized completion equipment to the location of the Blue Spruce #1 to test the productivity of the well. After successfully testing two oil zones in the Blue Spruce #1 well on the Illinois Shallow Oil Project, the well was set up for production in the Aux Vases formation. Blue Spruce #1 was placed on production until April 2015 when it was determined its production would cease until additional facilities were installed to maintain pressure in the field via water flooding.

In a report dated 30 June 2018, Strata-X's independent engineer, Chapman Petroleum Engineering Ltd (Chapman), confirmed Proved plus Probable Reserves are 1.282 million barrels of light oil net to the Company on the Blue Spruce project. Strata-X currently has the rights to 720 net acres of the Blue Spruce project where it has identified 19 oil development locations. Chapman calculated a before tax Net Present Value (BTNPV disc 10%) of the Blue Spruce project to the Company of USD$46.1 million (unrisked). [(1)]

To increase oil recovery and oil flow rates, the Blue Spruce project will require water pressure maintenance involving water flooding of the Aux Vases formation. It is estimated that the waterflood development will extract approximately 40% of the Petroleum Initially In Place ("PIIP" unrisked) resulting in a projected recovery of 1.282 million barrels of oil net to Strata-X. Chapman estimates that once all wells are drilled, total oil production from the Blue Spruce waterflood development project will exceed 500 barrels of oil per day net to the Company.[(1)]

Past water flooding projects in the Aux Vases formation in areas immediately adjacent to the Company's Blue Spruce Project have been successful. Previous yielded recoveries have been in excess of the forecasted 40% rate for Blue Spruce.[(1)] Following water flooding, tertiary recovery methods may also be considered by the Company which could further increase the recovery of the PIIP and oil reserves from the Blue Spruce oil field.

## Other Projects

The Company has a 23.9% working interest in 3,221 gross acres of land in the Eagle Project in the San Joaquin Valley area in California and is the operator of the project. One previously drilled well in the Eagle Project area encountered good oil shows in the Eocene Age Gatchell sands that tested up to 192 barrels of light oil and 427 Mcf of gas per day. Although light oil was recovered, the well was considered to be non-commercial at the time due primarily to formation damage by heavy drilling mud and cement squeezing. Subsequent activity on the prospect was met with mechanical issues despite continuing indications of oil shows in the primary target.

*(1) Information originally appeared in the Company's FYE 2018 51-101 Reserve Report available for viewing at www.strata-x.com*

## Summary of Annual Results

Historical annual information is as follows:

| | 30 June 2018 (IFRS) | 30 June 2017 (IFRS) | 30 June 2016 (IFRS) |
|---|---|---|---|
| **Revenue, net of royalties** | $53,798 | $167,264 | $134,243 |
| **Expenses** | $(1,686,830) | $(1,111,987) | $(974,269) |
| **Other income and net finance expense** | $(28,816) | $253,571 | $710,195 |
| **Impairment of oil and gas properties** | $0 | $(15,000) | $(2,311,908) |
| **Net Loss** | $(1,661,848) | $(706,152) | $(2,441,739) |
| **Basic & diluted net loss per share (1)** | $(0.02) | $(0.01) | $(0.04) |
| **Assets** | $12,249,475 | $13,451,366 | $13,515,577 |
| **Liabilities** | $1,003,385 | $783,271 | $1,281,280 |

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

**Historical quarterly information is as follows:**

| | 30 June 2018 | 31 March 2018 | 31 Dec 2017 | 30 Sep 2017 | 30 June 2017 | 31 March 2017 | 31 Dec 2016 | 30 Sep 2016 |
|---|---|---|---|---|---|---|---|---|
| Total Assets | $12,249,475 | $12,932,222 | $13,071,918 | $13,217,828 | $13,451,366 | $13,718,890 | $13,889,763 | $13,242,254 |
| Revenue, net of Royalties | $10,310 | $22,440 | $13,332 | $7,716 | $26,996 | $36,242 | $30,134 | $73,892 |
| Net Income (Loss) | $(1,252,636) | $(102,202) | $(159,222) | $(147,788) | $(35,603) | $(173,778) | $(287,431) | $(209,340) |
| Basic & diluted net income (loss) per share (1) | ($0.02) | ($0.00) | ($0.00) | ($0.00) | ($0.01) | ($0.00) | ($0.00) | $0.00 |

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

## Results of Operations

As noted above, total revenue for the quarter ended 30 June 2018 was $10,310 compared to $26,996 for the quarter ended 30 June 2017. The decrease is due to decreased oil production.

Production and exploration expenses for the quarter ended 30 June 2018 were $23,976 compared to $42,819 for the same quarter last year, consistent with the decrease in oil and gas revenues over the same period.

General and administrative expenses for the quarter ended 30 June 2018 increased by $66,848 to $237,200 from $170,352 the same quarter last year. The increase is due to one-time office related expenditures.

## Liquidity and Capital Resources

The consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS), which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company incurred a net loss of $(1,661,848) 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 moving forward with the Serowe CSG Project.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due depends on the success of the Company's exploration and development of its oil and gas properties, as well as the ability of the Company to obtain additional financing or equity to fund the exploration and development of those oil and gas properties. As discussed in the notes to the consolidated financial statements, subsequent to the year ended 30 June 2018, the Company was successful in completing a private placement generating USD$942,000 after placement costs. The Company is actively engaged in farm-out discussions with third parties to sell a non-operated position in the tenements of the Serowe CSG Project. The Company cannot provide any assurance that sufficient cash flows will be generated from operating activities or that proceeds from other activities noted above will be able to sustain the Company's financial position.

The consolidated financial statements do not reflect adjustments that would be necessary if the "going concern" assumption were not appropriate. In particular, adjustments would be required to the carrying value of the assets and liabilities, the reported profits and losses, and the balance sheet classifications used.

The Company cis committed to a rental agreement for office premises to 31 may 2021 for a total commitment of $96,160. As part of the Serowe CSG Project, the Company has committed to certain exploratory activity yearly milestones as well as proposed minimum expenditures in the amount of USD$770,000 by 31 December 2020.

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at 30 June 2018 and as at the date hereof, a total of 89,825,208 common shares and CDIs were issued and outstanding with a resulting share capital of $36,955,438. The Company has 3,881,250 warrants and 8,400,000 stock options outstanding with 5,550,000 options exercisable as of 30 June 2018 and as at the date hereof.

The Company has established a Stock Option Plan (Plan) for the benefit of directors, officers, employees and consultants of the Company. Pursuant to the Plan, 10% of the issued and outstanding common shares have been reserved for options to be granted to the Company's directors, officers, employees and consultants. The vesting period and the exercise price of the options shall be determined by the Board of Directors. The period during which an option is exercisable shall be determined by the Board of Directors at the time of grant, but subject to the rules of the stock exchange or other applicable regulatory body.

## Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

## Transactions with Related Parties

The Company utilizes the services of an outside firm the majority owner of which is a member of the board of directors of the Company. The contract with this firm for ongoing accounting, reporting and tax compliance services calls for monthly retainer payments of approximately $4,100. During the year ended 30 June 2018, the Company incurred approximately $48,800 (2017 - $48,800) in costs with the outside firm for accounting services.

## Summary of Significant Accounting Policies

The notes to the Company's 30 June 2018 annual consolidated financial statements describe the accounting policies and methods of computation used in preparing the Company's annual financial statements. The Company continues to assess the impact of adopting the pronouncements of the IASB as described in the Company's 30 June 2018 annual financial statements.

## Financial Risk Management

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

## Market risk

The Company's exposure to financial market risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest rate risk and foreign exchange risk. There have been no significant changes to the Company's market risks.

## 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. The Company is exposed to interest rate risk arising from fluctuation in interest rates related to its note payable with a related party. Management does not believe this risk is significant.

## Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate as a result of a change in foreign exchange rates. The Company cannot give any assurance that any future movements in the exchange rates of the U.S. dollar against the Canadian dollar, the Australian dollar and the Botswana pula will not adversely affect the financial statements. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. Management does not believe this risk is significant as minimal working capital balances are maintained in foreign currencies.

## Credit risk

The Company's exposure to credit risk relates to cash and cash equivalents, accounts 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.

## Critical Accounting Estimates

The timely preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

The following paragraphs discuss management's most critical assumptions, estimates and judgments in the preparation of the consolidated financial statements.

*Key sources of estimation uncertainty*

Recorded amounts for impairment, depletion and depreciation of oil and gas properties, the provision for decommissioning liabilities and the recognition of deferred tax assets due to changes in expected future cash flows are based on estimates. These estimates include proved and probable reserves, production rates, future oil and natural gas prices, future development costs, remaining lives and periods of future benefits of the related assets and other relevant assumptions. The Company's reserve estimates are evaluated annually pursuant to the parameters and guidelines stipulated under *National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities*.

The calculation of decommissioning liabilities depends on estimates of current risk-free interest rates, future restoration and reclamation expenditures and the timing of those expenditures.

The amounts recorded relating to the fair value of stock options issued 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.

## Control Certification

### Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure information required to be disclosed by the Company is accumulated and communicated to management to allow for timely decisions regarding required disclosures. The Company carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures as of 30 June 2018. The evaluation was carried out under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation of the effectiveness of the Company's disclosure controls and procedures as at year-end, that the Company's disclosure controls and procedures are ineffective to ensure that information required to be disclosed by the Company is (i) recorded, processed, summarized and reported within the time periods specified by Canadian securities law and (ii) accumulated and communicated to the Company's Management, including its Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. It should be noted that while the Company's Chief Executive Officer and the Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will necessarily prevent all error and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met.

### Material Weakness

A material weakness is a deficiency, or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The Company identified the following ongoing material weakness that applies to both disclosure controls and procedures and internal control over financial reporting:

> Due to the limited size of the Company, Strata-X does not have sufficient resources for reviewing the financial statements and cannot maintain adequate segregation of duties as is necessary to absolutely ensure complete and accurate financial reporting. Specifically, the Company's Chief Financial Officer is responsible for preparing, authorizing and reviewing information that is integral to the preparation of financial reports and is also responsible for day-to-day accounting. He is also responsible for preparing and reviewing the resulting financial reports. This weakness has the potential to result in material misstatement in the Company's consolidated financial statements that would not be prevented or detected and, as such, has been determined to be a material weakness in internal controls over financial reporting, which also affects the Company's disclosure controls and procedures.

As of the date of this report, Management has not yet developed a plan to remediate the material weakness. Management has concluded that, taking into account the present state of the Company's development, the Company does not have sufficient size and scale to warrant, and cannot reasonably justify, the expenditure for curing the material weakness given Management's view of the perceived risk in the material weakness.

### Internal Controls over Financial Reporting

The Company's Chief Executive Officer and the Chief Financial Officer have designed, or caused to be designed under their supervision, a system of internal controls over financial reporting to provide reasonable assurances regarding the reliability of the Company's financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. As at the financial year-end of the Company, such officers have evaluated, or caused to be evaluated under their supervision, the Company's internal controls over financial reporting and have determined that such internal control system is ineffective for the foregoing purposes. The Company is required to disclose herein any change in its internal controls over financial reporting during the period that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No change in the Company's internal controls over financial reporting was identified during such period that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. It should be noted that a control system, including the Company's disclosure and internal control procedures, no matter how well conceived can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors and fraud.

## Future Changes in Accounting Policies

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

**IFRS 9-Financial Instruments ("IFRS 9")**
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.

**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.

## Other Company Information

Additional disclosure information for Strata-X Energy Ltd. can be located in its latest Annual Management Discussion and Analysis, Annual Information Form and Audited Financials for the year ended 30 June 2018. All documents are available on SEDAR and the Company's website.

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| Tim Hoops | David Hettich |
| CEO, President and Managing Director | Chief Financial Officer |