



SATURN OIL & GAS INC.

CONDENSED INTERIM FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2018 AND 2017
(Unaudited – Prepared by Management)
(In Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

SATURN OIL & GAS INC.
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(UNAUDITED – PREPARED BY MANAGEMENT)
(EXPRESSED IN CANADIAN DOLLARS)
AS AT

	Note	March 31, 2018	December 31, 2017
ASSETS			
Current			
Cash		\$ 317,613	\$ 747,241
Amounts receivable	4	727,371	403,696
Marketable securities	5	25,600	22,400
Total current		1,070,584	1,173,337
Non-current			
Deposit		195,288	41,786
Environmental deposit	7, 8	285,149	285,149
Property, plant and equipment	7	4,690,750	2,267,014
Exploration and evaluation assets	8	2,060,600	1,510,814
Total non-current		7,231,787	4,104,763
Total assets		\$ 8,302,371	\$ 5,278,100
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current			
Accounts payable and accrued liabilities	9	\$ 3,912,624	\$ 2,194,623
Promissory note	10	796,786	45,161
Convertible note	11	1,989,052	1,972,603
Due to related parties	12	383,659	299,729
Total current		7,082,121	4,512,116
Non-current			
Asset retirement obligation	13	270,157	268,873
Convertible notes	11	1,272,350	1,253,746
Total non-current		1,542,507	1,522,619
Total liabilities		8,624,628	6,034,735
Shareholders' Deficiency			
Share capital	14	22,557,231	22,557,231
Equity reserves	14	6,223,692	6,049,425
Contributed capital on convertible debt		314,692	314,692
Shares subscribed	14	-	-
Deficit		(29,417,872)	(29,677,983)
Total shareholders' deficiency		(322,257)	(756,635)
Total liabilities and shareholders' deficiency		\$ 8,302,371	\$ 5,278,100

Nature and Continuance of Operations (Note 1)

Contingencies and Commitments (Note 18)

Subsequent Events (Note 19)

Approved by the Board of Directors on May 30, 2018

"John Jeffrey"

Director

"Scott Newman"

Director

The accompanying notes are an integral part of these condensed interim financial statements.

SATURN OIL & GAS INC.**CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(UNAUDITED – PREPARED BY MANAGEMENT)

(EXPRESSED IN CANADIAN DOLLARS)

	Note	Three months ended March 31,	
		2018	2017
OIL REVENUE		\$ 1,094,577	\$ -
ROYALTIES		(157,970)	-
NET REVENUE		936,607	-
COST OF SALES		196,295	-
DEPLETION		124,178	-
GROSS PROFIT		616,134	-
GENERAL AND ADMINISTRATIVE EXPENSES			
Accounting and auditing	12	\$ 5,118	\$ 10,500
Administration, office and rent		40,635	(1,446)
Advertising, promotion and public relations		19,123	17,669
Accretion		1,284	-
Amortization		2,121	-
Consulting		32,183	10,178
Filing fees		22,234	9,018
Interest expense		80,720	-
Insurance		6,669	2,038
Legal fees		3,804	1,200
Management fees	12	100,000	197,200
Share-based payments	13,14	174,267	2,890
Travel and accommodation		8,349	-
		(496,507)	(249,247)
Unrealized gain (loss) on marketable securities	5	3,200	15,000
Gain on settlement of accounts payable	9	137,284	-
Write-off of exploration and evaluation assets	8	-	(3,999)
Income (loss) for the period		260,111	(238,246)
Other comprehensive loss			
Unrealized gain on investments	6	-	36,067
Income (loss) and comprehensive income (loss) for the period		\$ 260,111	\$ (202,179)
Basic and diluted loss per share		\$ (0.00)	\$ (0.00)
Weighted average number of shares outstanding		150,705,541	145,210,219

The accompanying notes are an integral part of these condensed interim financial statements.

SATURN OIL & GAS INC.
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(UNAUDITED – PREPARED BY MANAGEMENT)
(EXPRESSED IN CANADIAN DOLLARS)

	Three months ended March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) for the period	\$ 260,111	\$ (238,246)
Items not affecting cash:		
Amortization	1,857	-
Accretion on asset retirement obligation	1,284	-
Depletion	123,329	
Share-based payments	174,267	2,890
Write-off of exploration and evaluation assets	(137,284)	3,999
Gain on settlement of accounts payable	-	-
Unrealized loss on investments	-	-
Foreign exchange loss (gain) on investments	-	(603)
Unrealized loss (gain) on marketable securities	(3,200)	(15,000)
Accretion on convertible debt	35,103	-
Accrued interest on promissory note	1,625	-
Changes in non-cash working capital items:		
Accounts receivable	(323,539)	7,710
Due to/from related parties	83,930	165,725
Prepaid expenses	-	2,038
Accounts payable and accrued liabilities	1,855,285	14,633
Net cash used in operating activities	2,072,632	(56,854)
CASH FLOWS FROM FINANCING ACTIVITIES		
Shares subscribed	-	112,000
Proceeds from promissory note	750,000	200,000
Exercise of warrants	-	-
Net cash provided by financing activities	750,000	312,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposit	(153,502)	4,000
Additions to property, plant and equipment	(5,832)	-
Additions to exploration and evaluation assets	(3,092,926)	(360,267)
Net cash used in investing activities	(3,252,260)	(356,267)
Change in cash	(429,626)	(101,121)
Cash, beginning of period	747,241	190,719
Cash, end of period	\$ 317,615	\$ 89,598

Supplemental disclosure with respect to cash flows (Note 17)

The accompanying notes are an integral part of these condensed interim financial statements.

SATURN OIL & GAS INC.

CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

(UNAUDITED – PREPARED BY MANAGEMENT)

(EXPRESSED IN CANADIAN DOLLARS)

	Number of Shares	Share Capital	Share-based Payment Reserves	Warrant Reserves	Convertible Debt	Shares Subscribed	Accumulated Other Comprehensive Loss	Deficit	Total
Balance as at December 31, 2016	145,210,219	\$ 21,078,517	\$ 5,302,888	\$ 36,287	\$ -	\$ 325,035	\$ 20,566	\$ (27,279,015)	\$ (515,722)
Shares subscribed	-	-	-	-	-	112,000	-	-	112,000
Share-based payments	-	-	2,890	-	-	-	-	-	2,890
Unrealized gain on available-for-sale investments	-	-	-	-	-	-	36,067	-	36,067
Loss for the period	-	-	-	-	-	-	-	(238,246)	(238,246)
Balance as at March 31, 2017	145,210,219	\$ 21,078,517	\$ 5,305,778	\$ 36,287	\$ -	\$ 437,035	\$ 56,633	\$ (27,517,261)	\$ (603,011)
Balance as at December 31, 2017	161,574,163	\$ 22,557,231	\$ 6,013,138	\$ 36,287	\$ 314,692	\$ -	\$ -	\$ (29,677,983)	\$ (756,635)
Share-based payments	-	-	174,267	-	-	-	-	-	174,267
Loss for the period	-	-	-	-	-	-	-	260,111	260,111
Balance as at March 31, 2017	161,574,163	\$ 22,557,231	\$ 6,187,405	\$ 36,287	\$ 314,692	\$ 437,035	\$ 56,633	\$ (29,417,872)	\$ (322,257)

The accompanying notes are an integral part of these condensed interim financial statements.

SATURN OIL & GAS INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2018
(UNAUDITED – PREPARED BY MANAGEMENT)
(EXPRESSED IN CANADIAN DOLLARS)

1. NATURE AND CONTINUANCE OF OPERATIONS

Saturn Oil & Gas Inc. was incorporated under the Laws of British Columbia on August 16, 2001. The Company is in the business of acquiring, exploring, evaluating and developing economically viable energy and resource deposits in Canada. The Company's current focus is to advance the exploration of its oil & gas properties in west-central Saskatchewan.

The Company's corporate headquarters are at 101-3239 Faithful Ave, Saskatoon, Saskatchewan, S7K 8H4. Effective May 3, 2004, the common shares of the Company were listed on the TSX Venture Exchange ("TSXV") and trade under the symbol "SMI".

Going concern of operations

These condensed interim financial statements have been prepared assuming the Company will continue on a going concern basis. The Company has incurred losses since its inception and the ability of the Company to continue as a going concern depends on its ability to raise adequate financing and to develop profitable operations. As at March 31, 2018, the Company has an accumulated deficit of \$29,673,582 (December 31, 2017 - \$29,677,983).

Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, and other business and financial transactions which would assure continuation of the Company's operations and exploration programs. In addition, management closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company if favorable or adverse market conditions occur. The Company is in production as of quarter one of fiscal year 2018.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable mining operations. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing to complete their development, and future profitable production or disposition thereof.

These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

2. BASIS OF PREPARATION

Statement of compliance

These condensed interim financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. The policies applied in these condensed interim financial statements are based on IFRS issued and effective as of March 31, 2018.

SATURN OIL & GAS INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2018
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2. BASIS OF PREPARATION (cont'd)

Basis of presentation

The condensed interim financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss and available-for-sale, which are stated at their fair value. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting except for cash flow information. All dollar amounts presented are in Canadian dollars, which is the Company's functional currency, unless otherwise specified.

Use of estimates

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- a) The recoverability of amounts receivable and due from related parties which is included in the statement of financial position;
- b) The carrying value of the investment in exploration and evaluation costs and the recoverability of the carrying value which are included in the statement of financial position;
- c) The determination of the fair value of stock options or warrants using stock pricing models requires the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions could materially affect the fair value estimate; therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options and warrants;
- d) The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry-forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore do not necessarily provide certainty as to their recorded values;
- d) Fair values of petroleum and natural gas properties, depletion and depreciation and amounts used in impairment calculations are based on estimates of crude oil and natural gas reserves, oil and gas prices and future costs required to develop those reserves. By their nature, estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the consolidated financial statements of future periods could be material.
- e) Amounts recorded for asset retirement obligation liabilities including estimates around timing and amount of expenditures required to settle liabilities and the risk free discount rate used.; and

SATURN OIL & GAS INC.
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2. BASIS OF PREPARATION (cont'd)

Use of estimates (cont'd)

f) In the determination of fair value for promissory and convertible notes, the Corporation uses a discounted cash flow technique which includes inputs that are not based on observable market data and inputs that are derived from observable market data. In the case of its convertible debenture modifications, where available, the Corporation seeks comparable interest rates. If unavailable, it uses those considered appropriate for the risk profile of a corporation in the industry.

e) Recorded costs of flow-through share premium liabilities reflect the premium received by the Company on the issue of flow-through shares. The premium is subject to measurement uncertainty and requires the Company to assess the value of non-flow-through shares. This determination is subjective and does not necessarily provide a reliable single measure of the fair value of the flow-through share premium liability.

Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed interim financial statements include, but are not limited to, the following:

- a) Going concern of operations; and
- b) Determination of categories of financial assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements as at December 31, 2017. These condensed interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2017.

New accounting standards and interpretation

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective.

Effective (proposed) for annual periods beginning on or after January 1, 2019:

IFRS 9, Financial Instruments – Classification and Measurement. IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as de-recognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

SATURN OIL & GAS INC.**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**

THREE MONTHS ENDED MARCH 31, 2018

(UNAUDITED – PREPARED BY MANAGEMENT)

(EXPRESSED IN CANADIAN DOLLARS)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**New accounting standards and interpretation (cont'd)**

IFRS 15 – Revenue from Contracts with Customers. IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service.

The Company expects the above standards to have little effect on its financial statements other than increased disclosure.

IFRS 16 – Leases. According to IFRS 16, all leases will be on the balance sheet of lessees, except those that meet the limited exception criteria. The standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of this standard.

4. AMOUNTS RECEIVABLE

	March 31, 2018	December 31, 2017
Accounts receivable	\$ 502,100	\$ 271,429
GST receivable	225,271	132,267
	<u>\$ 727,371</u>	<u>\$ 403,696</u>

5. MARKETABLE SECURITIES

	Shares
Balance, December 31, 2016	\$ 60,000
Reduction on disposition of shares	(16,200)
Change in fair value	(21,400)
Balance, December 31, 2017	22,400
Change in fair value	3,200
Balance, March 31, 2018	<u>\$ 25,600</u>

During the year ended December 31, 2015, the Company received 500,000 shares of Glacier Lake Resources Inc. (formerly Killdeer Minerals Inc.), a company related through common officers and directors for settlement of \$37,500 of debt. During year ended December 31, 2017 the Company disposed of 180,000 shares for a realized gain of \$4,701. Unrealized gains and losses on market fluctuations for the shares are recognized in profit or loss.

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6. INVESTMENTS

	March 31, 2018	December 31, 2017
Global Resources Investment Trust – cost	\$ -	\$ 1,300,000
Fair value adjustment	-	(1,196,194)
Cumulative foreign exchange gain (loss) associated with fair value adjustment	-	(10,362)
Reduction on disposition of shares	-	(93,344)
	<u>\$ -</u>	<u>\$ -</u>

During the year ended December 31, 2014, the Company acquired 704,301 shares of Global Resources Investment Trust (“GRIT”) valued at £1.00 each, in consideration for 10,000,000 units of the Company valued at \$0.13 each. The GRIT shares trade through the facilities of the London Stock Exchange. Each unit consists of one common share and one-half common share purchase warrant exercisable at \$0.17 per share for two years.

On acquisition, the GRIT shares were valued at \$1,300,000. The GRIT shares have been designated as available-for-sale and are recorded at fair value. Fair value is determined by reference to the last bid price at the date of the statement of financial position. At December 31, 2015, the Company impaired the GRIT shares as a result of the significant and prolonged decline in fair value and \$1,216,860 was transferred from OCI to profit or loss. During the year ended December 31, 2017, the shares were sold for proceeds of \$140,747, reducing OCI by \$20,556 to \$NIL with a gain of \$66,135 recognized in profit or loss.

7. PROPERTY, PLANT AND EQUIPMENT

	Producing assets	Other assets	Total
Cost:			
Balance, December 31, 2017	\$ 2,356,473	\$ 28,999	\$ 2,385,472
Additions	-	6,945	6,945
Transfer from E&E (note 8)	2,543,090	-	2,523,690
Balance, March 31, 2018	<u>\$ 4,899,563</u>	<u>\$ 35,944</u>	<u>\$ 4,916,107</u>
Accumulated amortization:			
Balance, December 31, 2017	\$ 114,021	\$ 4,437	\$ 118,458
Depletion	124,178	-	124,178
Amortization expense	-	2,121	2,121
Balance, March 31, 2018	<u>\$ 238,199</u>	<u>\$ 6,557</u>	<u>\$ 244,757</u>
Balance, December 31, 2017	<u>\$ 2,242,452</u>	<u>\$ 24,562</u>	<u>\$ 2,267,014</u>
Balance, March 31, 2018	<u>\$ 4,661,364</u>	<u>\$ 29,386</u>	<u>\$ 4,690,750</u>

SATURN OIL & GAS INC.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2018

(UNAUDITED – PREPARED BY MANAGEMENT)

(EXPRESSED IN CANADIAN DOLLARS)

7. PROPERTY, PLANT AND EQUIPMENT (cont'd)

During the period ended March 31, 2018, the Company transferred \$2,543,090 from exploration and evaluation. The Company tested for impairment immediately preceding the transfer of exploration and evaluation assets to property, plant and equipment during the period ended March 31, 2018. The Company determined that there was no impairment.

On February 1, 2018, the Company executed a Non-Cross Conveyed Pooling Agreement with Teine Heavy Oil Partnership, whereby the companies pooled their certain oil and gas assets near Flaxcombe, Saskatchewan.

On March 14, 2018, the Company executed a Purchase and Sale Agreement with Teine Heavy Oil Partnership, whereby the Company acquired two sections of land near Flaxcombe, Saskatchewan. Giving Saturn 100% working interest in the land. This purchase agreement also included three wells, four pipeline segments, and one facility.

8. EXPLORATION AND EVALUATION ASSETS

Although the Company has taken steps to verify title to mineral exploration and evaluation assets in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

a) Flaxcombe (Saskatchewan)

During the quarter ended March 31, 2018, the Company drilled, completed and brought on line three Viking horizontal wells. The total cost of this operation was \$2,166,514.00. The wells brought online were: 102/10-31-029-26W3, 102/09-29-29-26W3, 101/15-030-29-26W3.

b) Lucky Hills (Saskatchewan)

During the period ended March 31, 2018, the Company did no exploration or evaluation on its Lucky Hills property.

c) Whiteside (Saskatchewan)

During the quarter ended March 31, 2018, the Company did no exploration or evaluation on its Whiteside property.

Saskatchewan Oil and Gas

During the year ended December 31, 2017, the Company brought a total of three 100% working interest wells on-line on its Flaxcombe assets. On November 1, 2017, the Company brought online its 100% working interest vertical well in the Success Formation (121/11-18-029-26W3/03). On December 7, 2017, the Company drilled, completed, equipped and brought on-line two 100% working interest Viking horizontal wells (101/09-31-029-26W3/00 and 102/09-31-029-26W3/00).

As at March 31, 2018, the Company had an environmental deposit with the government of Saskatchewan of \$285,149 (March 31, 2017 - \$Nil). The environmental deposit may be refunded upon completion of the required reclamation work or forfeited to the government to carry out the reclamation work required.

SATURN OIL & GAS INC.**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**

THREE MONTHS ENDED MARCH 31, 2018

(UNAUDITED – PREPARED BY MANAGEMENT)

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8. EXPLORATION AND EVALUATION ASSETS (cont'd)

	Flaxcombe	Lucky Hills	Year ended March 31, 2018	Year ended December 31, 2017
Beginning balance	\$ 1,247,716	\$ 263,098	\$ 1,247,716	\$ 31,754
Expenditures during the year:				
Acquisition costs and land rental	342,413	-	342,413	992,147
Consulting	137,633	-	137,633	235,516
Drilling	1,369,975	-	1,369,975	861,534
Geology	1,706	-	1,706	10,928
Surface preparation	12,376	-	12,376	52,621
Well equipment	1,228,773	-	1,228,773	1,493,697
	3,092,876	263,098	3,355,974	3,646,443
Transfer to producing assets	(2,543,090)	-	(2,543,090)	(2,092,636)
Ending balance	\$ 1,797,502	\$ 263,098	\$ 2,060,600	\$ 1,510,814

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2018	December 31, 2017
Accounts payable	\$ 3,816,316	\$ 2,063,310
Accrued liabilities	3,500	81,656
Interest payable	92,808	49,657
	\$ 3,912,624	\$ 2,194,623

During the period ended March 31, 2018, the Company settled certain accounts payable with its suppliers and accordingly recorded a gain on settlement of accounts payable of \$137,284 (December 31, 2017 - \$343,666).

10. PROMISSORY NOTE

During the year ended December 31, 2016, the Company received proceeds from a promissory note of \$100,000 from a third party. The promissory note bears an interest of 5% per annum and was payable on January 31, 2017.

During the year ended December 31, 2017, the Company received additional proceeds of \$200,000 from the third party. The promissory note is secured by the Company's marketable securities and investments.

During the year ended December 31, 2017, the Company repaid \$260,000 promissory note payable including accrued interest to the third party.

During the period ended March 31, 2018, the Company received proceeds from promissory notes in the amount of \$1,250,000 from a third party. The promissory notes bears an interest of 2% per annum and are payable on May 19, 2018.

During the period ended March 31, 2018, the Company repaid \$500,000 promissory note payable including accrued interest to the third party.

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10. PROMISSORY NOTE (cont'd)

	March 31, 2018	December 31, 2017
Balance, beginning of year	\$ 45,161	\$ 100,000
Proceeds	1,250,000	200,000
Repayment	(500,000)	(265,616)
Interest	1,625	10,777
Balance, end of year	<u>\$ 796,786</u>	<u>\$ 45,161</u>

11. CONVERTIBLE NOTE

- a) During the year ended December 31, 2017, the Company received proceeds in the amount of \$1,000,000 from a third party and issued a convertible note payable, bearing interest at 5% per annum and due May 15, 2018.

The principal portion, together with all applicable accrued but unpaid interest, of the note is convertible into common shares of the Company at a conversion price of \$0.10 per share, at the option of the holder.

- b) During the year ended December 31, 2017, the Company received proceeds in the amount of \$1,000,000 from a third party and issued a convertible note payable, bearing at 5% per annum and due on demand.

The principal portion, together with all applicable accrued but unpaid interest, of the note is convertible into common shares of the Company at a conversion price of \$0.15 per share, at the option of the holder.

- c) During the year ended December 31, 2017, the Company received proceeds in the amount of \$1,500,000 from a third party and issued a convertible note payable, bearing interest at 5% per annum and due November 30, 2020.

The principal portion, together with all applicable accrued but unpaid interest, of the note is convertible into common shares of the Company at a conversion price of \$0.15 per share, at the option of the holder.

	March 31, 2018	December 31, 2017
Balance, beginning of year	\$ 3,226,349	\$ -
Proceeds	-	3,500,000
Value of convertible feature	-	(314,692)
Accretion	35,053	41,041
Balance, end of year	<u>\$ 3,261,402</u>	<u>3,226,349</u>
Less: current portion	1,989,052	1,972,603
	<u>\$ 1,272,350</u>	<u>\$ 1,253,746</u>

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12. RELATED PARTY TRANSACTIONS

During the period ended March 31, 2018, the Company incurred the following transactions with directors, officers and other key management personnel:

	Three months ended March 31,	
	2018	2017
Accounting	\$ -	\$ 10,500
Consulting and geological	49,969	4,000
Legal fees	3,804	-
Management fees	100,000	197,200
Share based payments	121,690	
Total	\$ 275,463	\$ 211,700

As at March 31, 2018, the Company owed \$383,659 (December 31, 2017 - \$299,729) to its directors, officers, other key management personnel of the Company, and companies controlled by officers of the Company.

13. ASSET RETIREMENT OBLIGATION

	March 31,	December 31,
	2018	2017
Balance, beginning of year	\$ 268,873	\$ -
Asset retirement obligation	-	263,837
Accretion	1,284	5,036
Balance, end of year	\$ 270,157	\$ 268,873

The asset retirement obligation is costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. Management of the Company has estimated that the total undiscounted cash flows required to settle the obligations will be \$263,837. These obligations have been discounted using a risk free rate of 2.18% and an inflation rate of 1.9% per year.

14. SHARE CAPITAL AND EQUITY RESERVES

Authorized

Unlimited common shares without par value.

During the year ended December 31, 2017, the Company:

- a) Closed a private placement for 3,412,000 units at a price of \$0.15 per unit for a gross value of \$512,498 of which \$325,035 was received in fiscal 2016. Each whole unit consists of one common share and one half of a share purchase warrant. Each whole warrant will entitle the holder to purchase one additional common share, exercisable at a price of \$0.20 per share for a period of 18 months from the date of issue of the whole warrant.

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14. SHARE CAPITAL AND EQUITY RESERVES (cont'd)

- b) Closed private placement for 12,951,944 units at a price of \$0.08 per unit for a gross value of \$1,036,156 of which \$890,540 was received in cash and \$145,616 in exchange for debt. Each unit consists of one common share and one-half of a share purchase warrant. Each whole warrant will entitle the holder to purchase one additional common share, exercisable at a price of \$0.15 per share for a period of 18 months from the date of issue of the warrant. The warrants are subject to an accelerated expiry clause. The Company paid \$69,242 of cash share issuance costs in relation to the private placement.

Share Purchase Warrants

Warrant transactions are summarized as follows:

	Outstanding Warrants	Weighted Average Exercise Price
Balance, December 31, 2016	6,584,800	\$ 0.20
Granted	8,181,972	0.16
Expired	(4,585,000)	0.22
Balance, December 31, 2017	10,181,772	0.16
Expired	(1,999,800)	0.15
Balance, March 31, 2018	8,181,972	\$ 0.16

Share Purchase Warrants (cont'd)

As at March 31, 2018, the following share purchase warrants were issued and outstanding:

Expiry Date	Outstanding Warrants	Exercise Price
January 10, 2019	6,475,972	\$ 0.15
June 18, 2019	1,706,000	\$ 0.20
	8,181,972	

Stock Options

The Company has an incentive stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 29,042,043 common shares of the Company. Under the plan, the exercise price of each option shall not be less than the discounted market price of the Company's stock on the grant date. The options can be granted for a maximum term of 5 years. The options granted vest as to 25% on the date of grant and 12.5% at the end of every quarter after the grant date. Vesting is determined by the Board of Directors. A summary of changes of stock options outstanding is as follows:

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14. SHARE CAPITAL AND EQUITY RESERVES (cont'd)

	Outstanding Options	Weighted Average Exercise Price
Balance, December 31, 2016	12,174,000	\$ 0.18
Granted	14,050,000	0.08
Forfeited/expired	(4,764,000)	0.18
Balance, December 31, 2017	21,460,000	0.12
Granted	1,700,000	0.16
Forfeited/expired	(3,935,000)	0.18
Balance, March 31, 2018	19,225,000	\$ 0.11
Exercisable, March 31, 2018	12,175,000	\$ 0.11

As at March 31, 2018, the following options were issued and outstanding:

Expiry Date	Outstanding Options	Exercise Price
January 22, 2019	1,450,000	\$ 0.15
February 24, 2020	525,000	\$ 0.20
May 7, 2020	1,000,000	\$ 0.20
January 29, 2021	500,000	\$ 0.15
April 18, 2022	10,000,000	\$ 0.08
August 28, 2022	4,050,000	\$ 0.09
February 21, 2023	1,700,000	\$ 0.16
	19,225,000	

Stock Options (cont'd)

During the period ended March 31, 2018, the Company granted 1,700,000 (2017 – 14,050,000) stock options with an initial fair market value of \$194,601 (2017 - \$924,684) or \$0.155 (2017 - \$0.07) per option. The Company expensed \$174,267 (2017 - \$2,890) to operations for the options vesting during the period ended March 31, 2018. The following weighted average assumptions were used for the Black-Scholes valuation of the stock options:

	<u>2018</u>	<u>2017</u>
Risk-free interest rate	2.14%	1.19%
Expected life of option	5 years	5 years
Expected dividend yield	0%	0%
Expected stock price volatility	103.81%	104.22%

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15. FINANCIAL INSTRUMENTS

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity risk, credit risk, currency risk, interest rate risk and price risk. Where material, these risks are reviewed and monitored by the Board of Directors.

a) Capital management

The Company manages its capital to safeguard the Company's ability to continue as a going concern, so that it can continue to provide adequate returns to shareholders and benefits to other stakeholders, and to have sufficient funds on hand for business opportunities as they arise.

The Company considers the items included in share capital as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, or return capital to shareholders. As at March 31, 2017, the Company is not subject to externally imposed capital requirements.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company is considered to be in the exploration and evaluation stage. Thus, it is dependent on obtaining regular financings in order to continue its exploration and evaluation programs. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's cash is invested in business accounts with quality financial institutions, is available on demand for the Company's programs, and is not invested in any asset backed commercial paper. As at March 31, 2018, the Company had \$317,615 (December 31, 2017 - \$747,241) in cash and \$7,269,772 (December 31, 2017 - \$4,512,116) in current liabilities. The Company is exposed to liquidity risk.

c) Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and amounts receivable. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions.

d) Currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars.

e) Interest rate risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash and permit deposits. There is a minimal risk that the Company would recognize any loss as a result of change in market interest rates.

f) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The ability of the Company to explore its resource properties and future profitability of the Company are directly related to the market price of commodities. The Company monitors commodity and equity prices to determine appropriate actions to be undertaken.

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15. FINANCIAL INSTRUMENTS (cont'd)

g) Fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The fair value of cash, marketable securities and investments are measured based on level 1 inputs of the fair value hierarchy.

The estimated fair value of due from and to related parties, accounts payable, and promissory note is equal to their carrying values due to the short-term nature of these instruments.

16. SEGMENTED INFORMATION

The Company currently conducts substantially all of its operations in Canada in one business segment, being the acquisition, exploration and production of resource properties.

17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company's significant non-cash transactions during the period ended March 31, 2018 were as follows:

- a) Reallocated \$2,523,690 from exploration and evaluation assets to property, plant and equipment.
- b) Included in property, plant, and equipment and exploration and evaluation assets is \$3,716,636 which relates to accounts payable and accrued liabilities.

The Company's significant non-cash transactions during the period ended March 31, 2017 were as follows:

- a) Included in exploration and evaluation assets is \$1,121,604 which relates to accounts payable and accrued liabilities.

18. CONTINGENCIES AND COMMITMENTS

The Company has entered into an executive employment agreement with two directors and officers of the company at a cost of \$200,000 per annum per director and officer for a total of \$400,000 per annum.

The Company has entered into a sublease agreement for office space over the next three years with minimum payments as follows:

2018	\$ 102,302
2019	\$ 102,302
2020	\$ 25,575

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19. SUBSEQUENT EVENT

Subsequent to the period ended March 31, 2017, the Company:

- a) Issued a promissory note payable on the receipt of loan proceeds in the amount of \$2,750,000. The Corporation issued up to 859,375 warrants to the lender that can be exercised for up to 859,375 common shares.
- b) Opened a brokered private placement of a minimum 29,166,667 common share units (the "Units") at a price of \$0.12 per Unit, for a minimum gross proceeds of approximately \$3,500,000 and up to a maximum gross proceeds of approximately \$5,000,000. Each Unit shall consist of one common share of the Company and one common share purchase warrant exercisable into one Common Share of the Company at a price of \$0.18 per Warrant for a period of 24 months from the closing date.