



SQUATEX ENERGY AND RESSOURCES INC.
(AN OIL AND GAS EXPLORATION COMPANY)

FINANCIAL STATEMENTS

AS AT MARCH 31 2018 and 2017



July 13, 2018

Independent Auditor's Report

To the Shareholders of Squatex Energy and Resources Inc.

We have audited the accompanying financial statements of Squatex Energy and Resources Inc., which comprise the statements of financial position as at March 31, 2018 and 2017 and the statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Squatex Energy and Resources Inc. as at March 31, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2 in the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Squatex Energy and Resources Inc.'s ability to continue as a going concern.

PricewaterhouseCoopers LLP¹

¹ CPA Auditor, CA, public accountancy permit No. A123642

SQUATEX ENERGY AND RESSOURCES INC.

(An oil and gas exploration company)

Statements of Financial Position

	Notes	March 31	
		2018	2017
<i>(audited - in Canadian dollars)</i>		\$	\$
ASSETS			
Current			
Cash		11 056	226 267
Canadian public companies shares		-	11 152
Accounts receivable	6	35 750	127 822
Tax credits receivable		53 234	34 491
Prepaid expenses		5 261	6 046
		105 301	405 778
Non-current assets			
Investment in a private company	7	1	1
Total assets		105 302	405 779
LIABILITIES AND SHAREHOLDER'S DEFICIENCY			
LIABILITIES			
Current			
Trade payables and other payables	8	282 711	169 509
Provisions	9	252 850	241 096
		535 561	410 605
Non-current			
Due to a company under common control , bearing interest at the rate of 15 %, payable on September 30, 2019		1 282 695	1 123 195
Total liabilities		1 818 256	1 533 800
SHAREHOLDER'S DEFICIENCY			
Share capital	10	4 703 229	4 703 229
Warrants	10	58 866	58 866
Contributed surplus	17	862 080	504 000
Deficit		(7 337 129)	(6 394 116)
Total shareholder's deficiency		(1 712 954)	(1 128 021)
Total liabilities and shareholder's deficiency		105 302	405 779
Going concern	2		
Commitments	21		
Subsequent events	22		

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



Jean-Claude Caron
President



René Guimond
Vice President Finance

SQUATEX ENERGY AND RESSOURCES INC.
(An oil and gas exploration company)

Statements of Comprehensive Loss

	Notes	Years ended March 31	
		2018	2017
<i>(audited - in Canadian dollars)</i>		\$	\$
Exploration and evaluation expenses	12	261 336	202 141
General and administrative expenses	13	490 882	424 619
Operating loss		(752 218)	(626 760)
Financial expenses	14	(190 227)	(129 074)
Change in fair value of Canadian public companies shares		(568)	8 325
Loss before income taxes		(943 013)	(747 509)
Deferred income tax recovery	15	-	265 825
Income tax recovery		-	265 825
Net loss and comprehensive loss		(943 013)	(481 684)
Net loss per share, basic and diluted⁽¹⁾	16	(0,0089)	(0,0046)
Weighted average number of common shares outstanding		105 841 876	104 774 233

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

SQUATEX ENERGY AND RESSOURCES INC.

(An oil and gas exploration company)

Statements of Changes in Equity

<i>(audited - in Canadian dollars)</i>	Note	Number of shares Number	Share capital \$	Warrants \$	Deficit \$	Contributed surplus \$	Total Shareholders' deficiency \$
Balance as at April 1, 2016		104 629 244	4 542 322	-	(5 912 432)	360 000	(1 010 110)
Net loss and comprehensive loss		-	-	-	(481 684)	-	(481 684)
Waiver of payment from a company under common control	17	-	-	-	-	144 000	144 000
Units issued by private placement		1 212 632	168 687	61 713	-	-	230 400
Units issuance costs		-	(7 780)	(2 847)	-	-	(10 627)
Balance as at March 31, 2017		105 841 876	4 703 229	58 866	(6 394 116)	504 000	(1 128 021)
Net loss and comprehensive loss		-	-	-	(943 013)	-	(943 013)
Waiver of payment from a company under common control	17	-	-	-	-	144 000	144 000
Share-based compensation	10	-	-	-	-	214 080	214 080
Balance as at March 31, 2018		105 841 876	4 703 229	58 866	(7 337 129)	862 080	(1 712 954)

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

SQUATEX ENERGY AND RESSOURCES INC.

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Statements of Cash Flows

	Years ended March 31	
	2018	2017
	\$	\$
<i>(audited - in Canadian dollars)</i>		
Operating activities		
Net loss	(943 013)	(481 684)
Adjustments:		
Change in fair value of listed shares of Canadian public companies	568	(8 325)
Loss on write-off of property, plant and equipment	-	210
Waiver of payment from a company under common control	144 000	144 000
Share-based compensation	214 080	-
Deferred income tax	-	(265 825)
Changes in working capital items :		
Accounts receivable	92 072	(79 414)
Tax credits receivable	(18 743)	18 726
Prepaid expenses	785	175
Trade payables and other payables	117 702	146 519
Provision	11 754	11 755
Cash flows from operating activities	(380 795)	(513 863)
Investing activities		
Disposition of investment in Canadian public companies shares	10 584	-
Cash flows from investing activities	10 584	-
Financing activities		
Issuance of shares and units	-	230 400
Issuance costs of units	-	(10 627)
Due to a company under common control	155 000	450 000
Cash flows from financing activities	155 000	669 773
NET INCREASE (DECREASE) IN CASH	(215 211)	155 910
CASH AT BEGINNING OF YEAR	226 267	70 357
CASH AT END OF YEAR	11 056	226 267

Additional information regarding cash flows is presented in Note 18.

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

SQUATEX ENERGY AND RESSOURCES INC.

(An oil and gas exploration company)

Notes to Financial Statements

(in Canadian dollars)

1. Nature of Operations

Squatex Energy and Ressources inc ("the Company") specializes in oil and gas exploration of oil sites in the Basses-Terres du St-Laurent, Bas St-Laurent and Gaspésie in Quebec, Canada. Since April 3, 2017, the Company has been listed on the Canadian Stock Exchange, under the symbol SQX.

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Company is incorporated under the *Canadian Business Corporations Act*.

The address of the Company's registered office and its principal place of business is 500-7055, boulevard Taschereau, Brossard (Québec), Canada, J4Z 1A7.

These financial statements were approved and authorized for publication by the Board of Directors on July 13, 2018.

2. Going Concern

These financial statements have been prepared in accordance with IFRS and on the basis of the going concern assumption, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. To determine whether the principle of going concern is valid, management takes into account all the information at its disposal concerning the Company's prospects for at least the next 12 months following the end of the period of its financial information presentation.

The Company has not yet found an oil and gas property containing deposits that are economically recoverable, the Company has not yet generated any income or cash flows from its operations. As at March 31, 2018, the Company had a negative working capital of \$ 430,260 and a cumulated deficit of \$ 7,337,129. See also note 21 for commitments related to exploration permits.

The Company's ability to continue as a going concern is dependent upon its ability to raise additional financing to further explore its oil and gas properties and the continued support from its suppliers. While management has been successful in securing financing in the past, there can be no assurance that such sources of funding or initiatives will be available to the Company. These material uncertainties cast a significant doubt regarding the Company's ability to continue its operations, and accordingly, the appropriateness of the use of IFRS applicable to a going concern.

The carrying amounts and classification of assets, liabilities, revenues and expenses presented in the financial statements and the statement of financial position have not been adjusted as would be required if the going concern assumption was not appropriate. These adjustments could be material.

SQUATEX ENERGY AND RESSOURCES INC.

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Notes to Financial Statements

(in Canadian dollars)

3. Significant accounting policies**3.1 Generality**

The principal accounting policies used in the preparation of these financial statements are summarized below.

These accounting policies have been used for all periods presented in the financial statements.

3.2 Basis of evaluation

These financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value.

3.3 Exploration licences jointly owned

The licences jointly owned with Pétrolympic Ltd. does not involve joint control according to IFRS 11. In sight of the agreement signed between parties, the Company has control over the licences owned and share the results with Pétrolympic Ltd. which holds a 30% participation.

Regarding its participation in licenses held jointly, the Company recognizes in the financial statements its share of assets held jointly, classified according to the nature of the assets, its share of any liabilities that it jointly contracted with Petrolympic Ltd. It also records its proportionate share of any proceeds from the sale or the use of its share of the production of the assets jointly owned as well as its share of any expenses incurred for the assets held jointly and any expenses incurred in respect of its interest in the assets held jointly.

3.4 Farm-out Agreement

On disposal of interests with respect to option agreements, the Company does not recognize exploration and evaluation expenditures incurred on the property by the purchaser. In addition, the consideration received in cash or in the acquirer's shares are recorded as a gain on disposal of exploration and evaluation assets in the net profit.

3.5 Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

SQUATEX ENERGY AND RESSOURCES INC.

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Notes to Financial Statements

(in Canadian dollars)

3. Significant accounting policies (cont'd)**3.5 Financial instruments (cont'd)**

Assets and financial liabilities are initially measured at fair value plus transaction costs, except for financial assets and liabilities carried at fair value through profit or loss who are initially measured at fair value.

The financial assets and liabilities are evaluated subsequently as presented below.

Financial assets

For subsequent evaluation purposes, the financial assets of the Company will be classified in the following categories at the time of the initial recognition:

- Loans and receivables;
- Financial assets at fair value through profit or loss;
- Available for sale financial assets

The category determines the subsequent measurement and the accounting either in net profit or in other comprehensive income. All income and expenses related to financial assets included in net profit are presented in the financial charges, if any, or in financial income, with the exception of changes in fair value of equity investments of Canadian public companies which are presented separately.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment. Discounting is omitted when the effect is immaterial.

Financial assets at fair value through profit or loss

The financial assets at fair value through profit or loss include the financial assets classified as owned for transaction purposes or that respect some conditions. They are designed to be at fair value through profit or loss at the time of the initial recognition.

The financial assets classified in this category are evaluated at fair value. The profits and losses resulting from the variations of the fair value are presented in the comprehensive income, in the period in which they occur.

Available for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not qualified to be in any of the other categories.

The interest is calculated with the effective interest rate method and the dividends are recognized in the net profit as finance income.

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(in Canadian dollars)

3. Significant accounting policies (cont'd)

3.5 Financial instruments (cont'd)

The Company has classified its financial instruments as follows:

Financial assets	Categorization
Cash	Loans and receivables
Accounts receivable (with the exception of sales taxes)	Loans and receivables
Debenture	Loans and receivables
Canadian public company shares and conversion option of an investment into a debenture.	Financial assets at fair value through profit or loss

Impairment of financial assets

All the financial assets, except those that are evaluated at fair value through profit or loss, are subject to an impairment test at least each at reporting date. The financial assets are impaired when objective indications exist that a financial asset or a group of financial assets have suffered a loss of value.

An objective indication of impairment could include:

- Important financial difficulties by the issuer or the debtor;
- A breach of contract, like the non-payment of the interests or the capital; or
- The rising probability of a bankruptcy or other financial restructuring of the borrower.

The significant debtors are subject to an impairment test when they are overdue or objective indications exist that one party in particular will not meet its obligations. Impairment of the debtors are presented in profit or loss in the general and administrative expenses when applicable.

Financial liabilities

The financial liabilities include trade payables and other payables, provisions and the due to a company under common control.

The financial liabilities are subsequently measured at amortized cost using the effective interest method.

The interest expenses are presented in the financial expenses.

SQUATEX ENERGY AND RESSOURCES INC.

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Notes to Financial Statements

(in Canadian dollars)

3. Significant accounting policies (cont'd)**3.6 Basic and diluted income per share**

The basic net income per share is calculated by dividing the profit or loss attributable to the equity owners of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated by adjusting earnings attributable to common shares of the Company, and the weighted average number of shares outstanding, to reflect the impact of all dilutive potential ordinary shares. Dilutive potential common shares shall be deemed to have been converted into common shares at the beginning of the period or, if later, the issuance date of the potential common shares.

3.7 Tax credits receivable

The Company is entitled to a refundable tax credit for oil and gas exploration expenditures. The eligible exploration expenses may qualify for a 28% repayment in Quebec. This tax credit is recorded as a decrease in the exploration and evaluation expenditures. The Company accounts for tax credits when there is reasonable assurance that the credits will be recovered and that the Company will comply with their conditions.

3.8 Exploration and evaluation expenditures

Exploration and evaluation expenditures are costs incurred in the course of initial search for oil and gas deposits with economic potential. Costs incurred before the legal right to undertake exploration and evaluation activities are recognized in profit or loss when they are incurred.

Once the legal rights to undertake exploration and evaluation activities have been obtained, all costs related to the acquisition of oil and gas rights, expenses related to the exploration and evaluation of oil and gas properties, net of tax credits related to these expenses are charged to profit or loss. Expenses related to exploration and evaluation include geological and geophysical studies, exploration drilling, sampling and activities related to the evaluation of the technical feasibility and commercial viability of extracting oil and gas resources. Costs are recognized in the statement of profit or loss until the technical feasibility and the commercial viability of extracting oil and gas resource is proven.

If technical feasibility and commercial viability of extracting oil and gas resources are demonstrated, all subsequent costs related to construction, installations and completion of equipment and facilities are capitalized in the "Oil and gas assets under construction" category. Once the development stage is complete, all the assets included in the "Oil and gas assets under construction" category are transferred in the "Oil and gas assets" category. To date, neither the technical feasibility nor the commercial viability of the extraction of oil and gas resources have been demonstrated.

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Notes to Financial Statements

(in Canadian dollars)

3. Significant accounting policies (cont'd)**3.9 Provisions and contingent liabilities**

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be reliably estimated. The timing or the amount of the outflow can be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes, decommissioning liabilities, restoration and similar liabilities or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. In case of a large number of similar obligations, the likelihood that an outflow will be required to settle these obligations is determined by considering the classification of obligations as a whole. Provisions are discounted when the time value of money is significant.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimates.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized.

SQUATEX ENERGY AND RESSOURCES INC.

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Notes to Financial Statements

(in Canadian dollars)

3. Significant accounting policies (cont'd)**3.10 Income tax**

The income tax expense recognized in profit or loss corresponds to the amount of deferred income tax and current income tax that are not recognized directly in equity.

The calculation of the current income tax is based on the tax rate and the tax rules that have been adopted at the end of the financial information presentation period. The deferred income tax is calculated using the liability method.

Deferred tax assets are recognized to the extent that it is probable that the tax loss and underlying deductible temporary differences will be used to offset future taxable income. This is assessed based on the Company's expectations about future operating results, which are adjusted for expenses and non-taxable goods and significant loss utilization limits or unused tax credits.

Usually, deferred tax liabilities are recognized in full, although IAS 12 *Income taxes* specifies a limited number of exemptions.

3.11 Equity

Share capital is the amount received on the issuance of shares minus issuance costs net of all income tax benefit on the underlying result in the issuance costs.

The deficit includes all current and prior period undistributed profit or loss.

The contributed surplus includes the payment waiver from a company under common control and the share-based compensation.

3.12 Flow-through shares

The Company finances a portion of its exploration expenses through the issuance of units including flow-through shares and common shares. The Company renounces to tax deductions for expenses related to resources to investors in accordance with tax legislation. The Company adopted an accounting method that considers the substance of flow-through shares as a) the issuance of a common share and b) the sale of a tax deduction. According to the residual value method, the distribution between the common shares offering and sale of tax benefits is based on the difference between the fair value of common shares and the amount that the investor pays for the flow-through shares. At the time of the issuance of flow-through shares, the sale of tax deductions is deferred and presented in liabilities. When the Company fulfills its obligation, (when the Company incurred eligible expenses and has the intention of renouncing to the tax deduction) the liability is reduced and the sale is recognized in profit or loss (in other income).

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Notes to Financial Statements

(in Canadian dollars)

3. Significant accounting policies (cont'd)**3.13 Segment reporting**

The Company presents and discloses segment information based on information that is regularly reviewed by the key operating decision makers, i.e. the President and the Board of Directors. Key decision makers have the joint responsibility of allocating resources to the Company's operating segments and assessing their performance. Management considers that the Company operates in a single industry or segment, which is exploration and evaluation of oil and gas resources in Canada.

3.14 Remuneration and other share-based payments

The Company grants stock options to certain employees and external directors. Stock options are vesting as follows in the case of a director, officer, employee or consultant: 35% at the time of grant; 30% after the end of the 3rd month following the grant; 20% after the end of the 6th month following the grant and 15% after the end of the 9th month following the grant. For persons who provide investor relations services, the stock options are vesting as follows: 10% at the time of the grant, 15% after the end of the 3rd month following the grant, 25% after the end of the 6th month following the grant, 25% after the end of the 9th month following the grant and 25% after the end of the 12th month following the grant. The options expire according to the date set by the Board of Directors at the time the option tranche is granted, but not more than the fifth anniversary of the date of grant. Each tranche of an attribution is considered a separate grant with its own vesting period and fair value at the grant date. The fair value of each tranche is valued on the grant date using the Black-Scholes option pricing model. Compensation expense is recognized over the vesting period of the tranche based on the number of options granted that are expected to vest, and increases contributed surplus. The number of options granted to be vested is reviewed at least annually, and any changes in estimates are recognized immediately in compensation expense, with a corresponding amount recognized as an adjustment to contributed surplus.

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Notes to Financial Statements

(in Canadian dollars)

4. Application of International Financial Reporting Standards (IFRS) new and modified**Standard adopted during the year*****IAS 7 - Statement of cash flows***

In January 2016, the IASB issued an amendment to IAS 7, Statement of cash flows, introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. The amendment is effective from January 1, 2017.

The Company believes that the information provided in these financial statements is sufficient to meet this new requirement.

IAS 12 - Income taxes

In January 2016, the IASB issued amendments to IAS 12, Income taxes to clarify the requirements for recognizing deferred tax assets on unrealized losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. The amendments are effective from January 1, 2017.

The Company concluded that these amendments have no impact on the Company's financial statements.

Existing standards not yet in force

At the date of the approval of these financial statements, new standards and interpretations of the existing standards and new amendments have been published but are not yet in force and the Company has not adopted them in advance. Management anticipates that all positions will be adopted in the Company's accounting policies for the first fiscal year beginning after the effective date of the Corporation's accounting policies.

Information on new standards and interpretations and changes that are likely to be relevant to the Corporation's financial statements is provided below. Certain other new standards and interpretations have been issued but management does not expect them to have a material impact on the Company's financial statements.

IFRS 2 - Share-based payments

In June 2016, the IASB issued an amendment according to IFRS 2 to clarify how to measure cash-settled share-based payments and how to record a change to convert a cash-settled allocation in an allocation settled in equity instruments. The amendment to IFRS 2 is mandatory for fiscal years beginning on or after January 1, 2018.

Management has not yet determined the impact that this standard will have on its financial statements.

IFRS 9 – Financial Instruments

IFRS 9 Financial Instruments issued in July, 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces improvements including a more logical standard of classification and measurement of financial assets, a more prospective depreciation standard based on expected credit losses and a substantially modified hedge accounting model. The new standard is effective for annual periods beginning on or after January 1, 2018. Management has not yet determined the impact that this standard will have on its financial statements.

SQUATEX ENERGY AND RESSOURCES INC.

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(in Canadian dollars)

4. Application of International Financial Reporting Standards (IFRS) new and modified (cont'd)**Existing standards not yet in force (cont'd)*****IFRS 16 - Leases***

In January 2016, the IASB issued IFRS 16. IFRS 16 describes the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, which is the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces IAS 17, Leases ("IAS 17") and related interpretations. All leases result in the lessee obtaining the right to use an asset from the beginning of the lease and, if lease payments are staggered over time, the tenant also gets financing. Therefore, IFRS 16 eliminates classification of leases as either operating leases or finance leases as required by IAS 17 and instead introduces a single accounting model for tenants. Applying that model, a lessee is required to recognize:

- (i) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of little value; and
- (ii) depreciation of leased assets separately from its lease liabilities in the statement of profit or loss.

This standard applies to fiscal years beginning on or after January 1, 2019.

The Company has not yet determined the impact that this standard will have on its financial statements.

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(in Canadian dollars)

5. Critical accounting estimates, judgements and assumptions

When preparing these financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results are likely to differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results. Information on significant judgments, estimates and assumptions that have the greatest impact on the recognition and measurement of assets, liabilities, revenues and expenses is presented below.

Estimation uncertainty**5.1 Tax credits receivable and payable**

The calculation of refundable tax credits on the eligible exploration expenses incurred involves a certain degree of estimation and judgement with respect to certain items including the tax treatment that can't be determined with certainty until a tax assessment has been issued by the relevant tax authorities and until a payment has been received.

Discrepancies arising between the actual results following the final resolution of some of these factors and assumptions may require adjustments to the tax credits receivable, exploration and evaluation expenditure and provisions should potentially be accounted for credits previously received by the Company. It may take considerable time before the tax administration reports its decisions on issues related to tax credits. The amounts recognized in the financial statements are established based on the Company's best estimates and judgment. However, given the uncertainty in obtaining the approval of the tax authorities, the amount of tax credits that will actually be recovered or the amount to be repaid and the timing of such recovery or payment could differ from accounting estimates, which could affect the financial position and cash flows.

On October 23, 2015, the Company received notices of assessment from tax authorities for the years ended March 31, 2012, 2013 and 2014, refusing expenditures in the calculation of the resource credits. The assessment totals \$ 208,805, including \$ 26,163 in interest. The Company disagrees with the notice of assessment and initiated an objection to justify its claims. All without prejudice as to the entire objection process and judicial proceedings that may ensue, the Company believes that the maximum claim of refundable tax credits relating to resources already cashed by the Company would be an approximate total amount of \$ 189,992 as at March 31, 2017 and March 31, 2018, excluding any applicable interest if the expenditure referred to in the notice of assessment are ultimately rejected.

As at March 31, 2018, the Company recorded a specific provision of \$ 244,850 (\$ 233,096 as at March 31, 2017) in the statement of financial position (Note 9) despite its disagreement with the assessment since the tax credits for the periods presented have been collected by the Company.

Significant judgments**5.2 Going concern**

The assessment of the Company's ability to continue on as a going concern basis, to obtain sufficient funds to cover current operations expenses and meet its obligations for the coming year and obtain financing for planned exploration and evaluation programs involves significant judgment based on past experience and other factors, including the probability of future events that are considered reasonable in the light of circumstances. Refer to note 2 for more information.

SQUATEX ENERGY AND RESSOURCES INC.

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Notes to Financial Statements*(in Canadian dollars)***6. Receivables**

	2018	2017
	\$	\$
Accounts receivable	26 359	102 992
Sales tax receivable	9 391	24 830
Receivables	35 750	127 822

7. Investment in a private company

	2018	2017
	\$	\$
Debenture, 10.00%, maturing on September 8, 2019.	1	1

On September 4, 2014, the Company approved the buyback of common shares owned by a private company at a cost of \$ 500,000, effective on September 9, 2014, and payable by the issuance of a debenture of a nominal value of \$ 500,000 bearing interest at an annual rate of 10.00%, payable or capitalized semi-annually, maturing on September 8, 2019. The debenture includes a conversion option of the principal and accrued interests at the date of conversion into common shares of the private company at the price of \$ 0.20 per share. Upon issuance and at March 31, 2018 and 2017, the fair value of the debenture and the conversion option was set at \$ 1.

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Notes to Financial Statements*(in Canadian dollars)***8. Trade payables and other payables**

	2018	2017
	\$	\$
Accounts payable	33 211	98 232
Interest payable - company under common control	249 500	71 277
Trade payables and other payables	282 711	169 509

9. Provisions

	Account to be paid in negotiation	Refundable tax credits related to resources	Total
	\$	\$	\$
As at March 31, 2017	8 000	233 096	241 096
Additions	-	11 754	11 754
As at March 31, 2018	8 000	244 850	252 850
Current	8 000	244 850	252 850
Non-current	-	-	-

As at March 31, 2016, the Company recognized a specific provision of \$ 221,341 in the statement of financial position (note 5). An addition of \$ 11,754 was added to this allowance in the year ended March 31, 2018 (\$ 11,755 during the year ended March 31, 2017) to reflect interest accruing from the passage of time.

As at March 31, 2016, the Company recognized a specific provision of \$ 8,000 in the statement of financial position in connection with an account payable which is still under negotiation, as at March 31, 2018, with a supplier.

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10. Equity

10.1 Authorized share capital

Unlimited number of common shares without par value.

10.2 Issued share capital

Private placement

During the previous year, on December 21, 2016, the Company completed a private placement without an agent or broker for gross proceeds of \$ 230,400. The offering consisted of the issuance of 1,212,632 units at a price of \$ 0.19 including one common share and one common share purchase warrant, each warrant entitling its holder to purchase one common share at a price of \$ 0.19 per share for a period of 18 months. Securities issued are subject to a holding period until April 22, 2017. The fair value of the warrants is estimated at \$ 0.051 per warrant using the Black-Scholes valuation model, assuming no expected dividend payments, expected volatility of 97.7%, a risk-free interest rate of 0.83% and an expected warrant life of 18 months. An amount of \$ 58,866 was charged to the warrants and deducted from the share capital. The Company currently estimates the volatility of the market price of its common shares based on comparable information derived from transactions carried out by public companies in a situation similar to its own and taking into account the expected life of the warrants.

10.3 Warrants

The following table shows the continuity of the outstanding warrants as at March 31, 2018:

	Number of warrants Number	Weighted average exercise price \$	Fair value allocated \$
Balance as at April 1st, 2016	-	-	-
Issued by private placement	1 212 632	0,19	58 866
Balance as at March 31, 2017 and 2018	1 212 632	0,19	58 866

The weighted average contractual life of the warrants as at March 31, 2018 is 3 months.

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10. Equity (cont'd)**10.4 Stock options**

On June 5, 2017, the Board of Directors of the Company adopted a stock option plan (the "plan") under which the members of the Board of Directors may from time to time allot options allowing its directors, officers, employees and consultants to acquire common shares. The terms and exercise price of each option are determined by the members of the board of directors.

The plan provides that the maximum number of common shares in the Company's capital that may be reserved for allocation under the plan represents 10% of the shares issued upon grant of the options, representing 10,584,187 common shares as at the date of the adoption of the plan. The maximum number of common shares reserved for the grant of one-holder options during a 12-month period may not exceed 5% of the shares outstanding on the date of grant and for consultants or persons who provide investor relations services, it may not exceed 2% of the outstanding shares on the date of grant. The maturity date of the options is the date set by the board of directors, provided that such date does not exceed the fifth anniversary of the grant date of the option. The options granted may be exercised in the following manner in the case of a director, officer, employee and consultant: 35% at the time of grant; 30% after the end of the 3rd month following the grant; 20% after the end of the 6th month following the grant and 15% after the end of the 9th month following the grant. For individuals who provide investor relations services: 10% at the time of grant, 15% after the end of the 3rd month following the grant, 25% after the end of the 6th month following the grant, 25% after the end of the 9th month following the grant and 25% after the end of the 12th month following the grant.

The exercise price of each option is determined by the members of the board of directors and may not be lower than the market value of the common shares on the day prior to the grant.

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Notes to Financial Statements*(in Canadian dollars)***10. Equity (cont'd)****10.4 Stock option (cont'd)**

The variations in the Company's stock options are as follows:

	Number of stock option	Weighted average exercise price \$
	Number of stock option	\$
Balance as at April 1st, 2017	-	-
Granted	1 000 000	0,35
Balance as at March 31, 2018	1 000 000	0,35

Stock options granted and exercisable as at March 31, 2018:

Options granted	Options exercisable	Exercise price	Expiration date
1 000 000	1 000 000	0,35 \$	June 2022
1 000 000	1 000 000		

The fair value of the options granted was estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

Average share price at the grant date	\$	0,30
Risk free interest rate		1,39 %
Expected volatility		97,70 %
Expected life (in years)		5,00 years
Expected dividend		- %
Average exercise price at the grant date	\$	0,35
 Fair value of stock options granted at market value	 \$	 0,2141

Stock-based compensation recognized in earnings amounts to \$ 214,080 for the year ended March 31, 2018 (2017 - nil).

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11. Financial assets and liabilities**Categories of financial assets and liabilities**

The carrying value and the fair value of the financial instruments presented in the statement of financial position are as follows:

	At March 31, 2018		At March 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Financial assets				
Loans and receivables				
Cash	11 056	11 056	226 267	226 267
Receivables (with the exception of sales taxes receivable)	26 359	26 359	102 992	102 992
Debenture	1	1	1	1
	<u>37 416</u>	<u>37 416</u>	<u>329 260</u>	<u>329 260</u>
Financial assets at fair value through profit or loss				
Canadian public companies shares	-	-	11 152	11 152
Financial liabilities				
Financial liabilities evaluated at amortized cost				
Trade payables and other payables	282 711	282 711	169 509	169 509
Provisions	252 850	252 850	241 096	241 096
Due to a company under common control	1 282 695	1 282 695	1 123 195	1 123 195
	<u>1 818 256</u>	<u>1 818 256</u>	<u>1 533 800</u>	<u>1 533 800</u>

SQUATEX ENERGY AND RESSOURCES INC.

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(in Canadian dollars)

11. Financial assets and liabilities (cont'd)**Categories of financial assets and liabilities (cont'd)**

The carrying value of cash, accounts receivable (excluding sales taxes receivable), trade and other payables is considered a reasonable approximation of fair value due to the short term maturities of these financial instruments.

The fair value of Canadian public companies shares was determined based on the bid price on the closing date and are classified as Level 1. The fair value of the conversion option on the debenture investment in a private company has not been determined because there is no active market and fair value can not be measured reliably.

The fair value of the due to a company under common control and the debenture is determined using a discounted cash flows method based on interest rates observable in the market for similar instruments with a similar risk (level 2).

Note 3.5 contains a description of accounting policies for each financial instruments category. Notes 19 and 20 provide a description of the Company's risk management methods and goals related to financial instruments.

Financial instruments measured at fair value and financial instruments measured at amortized cost for which fair value is disclosed

Assets and liabilities measured at fair value in the statement of financial position and those measured at amortized cost for which fair value is disclosed are presented according to the fair value hierarchy. This hierarchy classifies financial assets and liabilities into three levels depending on the observability of the inputs used in measuring fair value of financial assets and liabilities. Hierarchy levels of fair value measurements are:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities at the date of financial information presentation;

Level 2: Data other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3: Data for the asset or liability that are not based on observable market data.

The level in which the financial liability or asset is classified is determined according to the lowest level data available which is significant in relation to the measurement of fair value.

There were no transfers between levels during periods of presentation of financial information. The method and valuation techniques used for the assessment of the fair values were unchanged compared to that of the reporting period of the previous financial information.

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12. Exploration and evaluation expenditures

Exploration and evaluation expenditures by region are detailed as follows:

	2018		
	Additions	Tax credits	Net balance
	\$	\$	\$
St.Lawrence Lowlands	48 100	-	48 100
Lower St.Lawrence/Gaspe	266 470	(53 234)	213 236
Total	314 570	(53 234)	261 336

	2017		
	Additions	Net tax credits	Net balance
	\$	\$	\$
St.Lawrence Lowlands	31 200	0	31 200
Lower St.Lawrence/Gaspe	205 432	(34 491)	170 941
Total	236 632	(34 491)	202 141

Exploration and evaluation expenditures by nature are detailed as follows:

	2018	2017
	\$	\$
Geology and geophysics	170 270	143 032
Technical consultation	144 300	93 600
Total	314 570	236 632
Tax credits, net	(53 234)	(34 491)
Exploration and evaluation expenditures net of tax credits	261 336	202 141

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12. Exploration and evaluation expenditure (cont'd)**St.Lawrence Lowlands**

(i) The Company holds 12 exploration permits totaling 2 249,33 km².

(ii) In November 2008, the Company signed a farmout and Joint Operating Agreement with Petrolympic Ltd. ("Petrolympic") and Canbriam Energy Inc. ("Canbriam"), a private company based in Calgary, Alberta. This agreement provides for exploration work on two (2) licenses held by Squatex and Petrolympic and enables Canbriam to earn a 60% participation for a total of 32,000 hectares.

Canbriam did not do the planned work within the agreed period and as a result, the farmout agreement was terminated. Notwithstanding the foregoing, Canbriam maintains its 60% already earned on the 8,000 hectares selected in two (2) license jointly held by the Company and Petrolympic Ltd. The remaining 40% is jointly owned by the Company and Petrolympic Ltd. under the terms of the existing agreement, which represents 28% and 12% respectively.

Lower St.Lawrence/Gaspe

(i) The Company holds 24 exploration permits totaling 4,311.60 km².

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Notes to Financial Statements*(in Canadian dollars)***13. General and administrative expenses**

Nature of the expenses	2018 \$	2017 \$
Professional services	169 487	296 710
Stock-based compensation	214 080	-
Management fees	24 000	24 000
Registration fees	22 365	33 779
Representations and travel	505	2 599
Insurance	8 444	11 130
Regulations and licensing	47 392	47 505
Associations	4 510	4 785
Office expenses	99	1 901
Donation	-	2 000
Loss on write-off of property, plant and equipment	-	210
	490 882	424 619

14. Financial expenses

	2018 \$	2017 \$
Interests on due to a company under common control	178 223	117 033
Interest and other bank expenses	12 004	12 041
	190 227	129 074

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Notes to Financial Statements*(in Canadian dollars)***15. Income taxes****Important components of the income tax recovery**

Important components of the income tax recovery are as follows :

	2018	2017
	\$	\$
Income tax recovery		
Total Income tax recovery	-	-
	2018	2017
	\$	\$
Deferred income tax recovery		
Creation and reversal of temporary differences	-	265 825
Total deferred tax recovery	-	265 825
Total tax recovery	-	265 825

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15. Income taxes (cont'd)**Reconciliation between the tax recovery on the expected income and tax recovery of the statement of comprehensive loss**

The relation between the income tax recovery calculated using the combined federal and provincial rates in Canada and the tax recovery recorded in the statement of comprehensive loss is reconciled as follows :

	2018	2017
	\$	\$
Net loss before income tax	(943 013)	(747 509)
Income tax recovery calculated using the combined canadian federal and provincial rate of 26.8% (26.9% in 2017)	(252 727)	(201 080)
Increase (decrease) in income tax resulting from the following:		
Non-deductible unrealized loss (Gain) (non-taxable)	-	(1 120)
Difference between deferred and statutory tax rates	4 458	11 422
Change in unrecognized temporary differences	151 425	(99 431)
Miscellaneous	96 844	24 384
	-	(265 825)

Deferred tax assets and liabilities and changes in amounts recognized during the year

As at March 31, 2018, the Company has the following temporary differences for which no deferred tax asset has been recognized:

	Federal	Provincial
Exploration and evaluation expenditures	853 035	853 035
Units issuance costs	6 376	6 376
Non-capital losses	2 274 865	2 274 705

As at March 31, 2018, the Company has deductible capital losses of \$ 102,137 (\$ 101,859 in 2017) of which \$ 12,030 are unrealized (\$ 37,059 in 2017) that can be applied against future taxable capital gains and may be carried forward indefinitely.

The Company's non-capital losses will expire between 2034 and 2038.

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16. Earnings per share

Basic earnings per share is calculated using the net profit or loss for the period divided by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is the same as there are no potentially dilutive items on March 31, 2018 and 2017. As at March 31, 2018, 1,000,000 stock options were anti-dilutive (nil as at March 31, 2017).

There have been no other transactions involving ordinary shares between the reporting date and the approval date for the publication of these financial statements.

17. Transactions with related parties

The related parties of the Company include key executives and companies controlled by them, as explained below.

Unless otherwise specified, none of the transactions include special characteristics or conditions and no guarantees were given or received.

Transactions with key management

Key management includes directors (members of the management committee or not) and senior executives. There is no compensation paid or payable to key management, with the exception of fees charged by them or to a company controlled by them, for their services as employees which is presented below:

	2018	2017
	\$	\$
Exploration and evaluation expenditures net of tax credits	203 202	150 531
Professional services	120 000	122 800
Share-based compensation	214 080	-
Management fees	24 000	24 000
Financial expenses	178 223	117 033

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17. Transactions with related parties (cont'd)

As at March 31, 2018, there is an outstanding balance of \$ 20,050 (\$ 52,425 at March 31, 2017) resulting from these operations plus interest payable of \$ 249,500 (\$ 71,277\$ as at March 31, 2017). In addition, the due to a company under common control of \$ 1,282,695 (\$ 1,123,195 as at March 31, 2017) is a transaction with related parties.

A company under common control waived payment of its services, which are services for the President, for the year ended March 31, 2018. The value of these services is a total of \$ 144,000 (\$ 144,000 in 2017) and was recognized in contributed surplus.

18. Non-cash transactions

During the year, the Company transferred a supplier's debt to a company under common control due to a company under common control on March 31, 2018, for \$ 4,500. This transaction had no impact on cash flow.

During the previous year, the Company capitalized accrued interest on the amount due from a company under common control on September 30, 2016, for \$ 173,195. This transaction had no impact on cash flow.

19. Policies and capital management processes

In its capital management operations, the Company seeks to provide the necessary capital enabling it to continue its partnership strategy for the development of its oil and gas properties, maintaining a flexible capital structure enabling the Company to keep its land position, to continue its exploration activities and to maintain the necessary liquidity to address risks that could affect its financial position. The board of directors did not establish quantitative criteria for the management of capital, but it relies on the expertise of the Company's management to sustain future growth of the Company.

The Company manages its capital on the basis of the carrying value of equity. The capital for the current year is presented in Note 10 and in the statements of changes in equity.

The Company is not subject to any externally imposed capital requirement.

The Company determines the amount of capital in proportion to its overall financing structure, namely its equity and financial liabilities. The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the risk of the underlying assets. To maintain or adjust the capital structure, the Company may be required to return capital to shareholders, issue new shares or sell assets.

When financing conditions are not optimal, the Company may sign option agreements or other agreements in order to continue its exploration activities or may slow its activities until funding conditions improve.

No changes were made in terms of objectives, procedures or capital management processes during the periods of financial information presentation.

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20. Risks related to financial instruments

The Company is exposed to various financial risks. Note 11 summarizes the Company's financial assets and liabilities by category. The Company is exposed to the market risk, credit risk and liquidity risk.

The Company does not conclude financial instruments contracts, including financial derivatives, for speculative purposes.

No change has been made in terms of objectives, policies or procedures related to risk management arising from financial instruments throughout the periods that have been taken into consideration for the presentation of the financial information.

The main financial risks that the Company is exposed to are described below.

20.1 Market risks

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company is exposed to interest rate risk and price risk. The Company's objectives are to ensure short and medium-term cash inflows while reducing exposure to capital markets.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Fluctuations in interest rates may affect the fair value of the financial assets and liabilities bearing interest at fixed rates. As the due to a company under common control is recognized at amortized cost, fair value changes have no impact on the net profit.

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Notes to Financial Statements*(in Canadian dollars)***20. Risks related to financial instruments (cont'd)****20.2 Credit risk**

Credit risk is the risk that the other party to a financial instrument fails to discharge an obligation which consequently leads the Company to incur a financial loss.

The maximum exposure of the Company to credit risk is limited to the carrying value of the following financial assets at the date of presentation of financial information, net of applicable provisions :

	March 31	
	2018	2017
	\$	\$
Cash	11 056	226 267
Receivables (with the exception of sales taxes receivable)	26 359	102 992
Book value	37 415	329 259

The Company's credit risk is mainly related to receivables. The Company does not require collateral. Accounts receivable are managed and analyzed on an ongoing basis therefore the Company's exposure to bad debts is not significant.

The Company's management believes that the credit quality is good for all financial assets described above that are not impaired or past due for each date of presentation of financial information.

No financial assets are overdue, no provision or correction for impairment was recognized for the periods presented.

Credit risk on cash is considered negligible as these financial instruments are held in a reputable financial institution whose external credit rating is good.

20.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties honouring commitments related to financial liabilities that are settled with cash or another financial asset.

Management of liquidity risk ensures sufficient cash and cash equivalents are maintained and that the Company has the necessary funds required for its activities. To this end, annual cashflow forecasts and budgets are established by the Company.

At March 31, 2018, the Company has \$ 11,056 (\$ 226,267 as at March 31, 2017) in cash to meet its current liabilities of \$ 535,561 (\$ 410,605 as at March 31 2017). Any shortfall may be met in various ways in the future, including, without limitation, the issuance of new equity securities, further measures to reduce spending, signed agreement with external creditors or other measures. Despite the fact that management has managed to obtain funding in the past, there is no guarantee of success for the future. There is no guarantee that these sources of funding or initiatives will be available to the Company or that they will be available on terms acceptable to the Company. If management does not obtain new funds, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in these financial statements. See Note 2 on going concern.

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21. Commitments

On March 31, 2018, the Company is exempted from the government's statutory work obligations on exploration licenses for an indefinite period. However, the Company is required to pay an annual fees of \$ 10.30 per km² to maintain its licenses.

If the obligations for exploration activities return to normal, the total commitments of the Company for the full period of the licenses would be approximately \$ 2,257,251. The commitments for the two (2) subsequent years would then be:

At March 31	Statutory obligations
2019	\$ 1 586 322
2020	\$ 670 929

22. Subsequent Events

On April 5, 2018, May 11, 2018 and May 29, 2018 a company under common control has made additional advances of \$ 20,000 on each of the dates. On July 11, 2018, an additionnal advance of \$ 30,000 was made by a company under common control. This brings the due to a company under common control (bearing interest at 15% payable September 30, 2019) to a balance of \$ 1,342,695.

23. Comparative figures

Certain figures for year end March 31, 2017 have been reclassified to make their presentation identical to that of year ended March 31, 2018.

The adjustment consists of a reclassification between office expenses and registration fees, both of which are presented in general and administrative expenses in the statement of comprehensive loss. This reclassification is done to better reflect the nature of the expenses involved. As a result, office expenses decrease by \$ 15,963 and registration fees increase by the same amount.