RESSOURCES ET ÉNERGIE SQUATEX

SQUATEX ENERGY AND RESSOURCES INC.

(AN OIL AND GAS EXPLORATION COMPANY)

FINANCIAL STATEMENTS

AS AT MARCH 31 2020 and 2019

Independent auditor's report

To the Shareholders of
Squatex Energy and Resources Inc.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Squatex Energy and Resources Inc. (the Company) as at March 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's financial statements comprise:

- the statements of financial position as at March 31, 2020 and 2019;
- the statements of comprehensive loss for the years then ended;
- the statements of changes in equity for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to note 2 to the financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Maxime Guilbault.

PricewaterhouseCoopers LLP[1]

Montréal, Quebec
July 29, 2020

[1] CPA auditor, CA, public accountancy permit No. A128042

SQUATEX ENERGY AND RESSOURCES INC.

(An oil and gas exploration company)

Statements of Financial Position

(audited - in Canadian dollars)	Notes	March 31 2020 $	2019 $
ASSETS			
Current			
Cash		**13 373**	28 263
Accounts receivable	6	**95 626**	57 929
Reimbursement of annual fees receivable		**255 616**	-
Tax credits receivable		**29 279**	19 197
Prepaid expenses		**20 000**	7 479
Investment in a private company	7	**-**	1
		413 894	112 869
Total assets		**413 894**	112 869
LIABILITIES AND SHAREHOLDER'S DEFICIENCY			
LIABILITIES			
Current			
Trade payables and other payables	8	**134 643**	44 696
Provisions	9	**624 064**	264 605
Due to a company under common control , bearing interest at the rate of 15 %, payable on September 30, 2020	18	**440 600**	-
		1 199 307	309 301
Non-current			
Due to a company under common control , bearing interest at the rate of 15 %, payable on September 30, 2020	18	**-**	295 600
Total liabilities		**1 199 307**	604 901
SHAREHOLDER'S DEFICIENCY			
Share capital	10	**6 504 107**	6 504 107
Contributed surplus	10 & 17	**1 208 946**	1 064 946
Deficit		**(8 498 466)**	(8 061 085)
Total shareholder's deficiency		**(785 413)**	(492 032)
Total liabilities and equity		**413 894**	112 869

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

(audited - in Canadian dollars)	Notes	Years ended March 31 **2020** **$**	 2019 $
Exploration and evaluation expenses	12	**162 127**	205 364
General and administrative expenses	13	**197 367**	416 156
Operating loss		**(359 494)**	(621 520)
Financial expenses	14	**(77 887)**	(102 436)
Net loss and comprehensive loss		**(437 381)**	(723 956)
Net loss per share, basic and diluted	16	**(0,0035)**	(0,0062)
Weighted average number of common shares outstanding		**123 850 656**	**116 795 161**

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

(audited - in Canadian dollars)	Note	Number of shares Number	Share capital $	Warrants $	Deficit $	Contributed surplus $	Total Shareholders' deficiency $
Balance as at April 1, 2018		105 841 876	4 703 229	58 866	(7 337 129)	862 080	(1 712 954)
Net loss and comprehensive loss		-	-	-	(723 956)	-	(723 956)
Waiver of payment from a company under common control	17	-	-	-	-	144 000	144 000
Expiry of warrants	10	-	-	(58 866)	-	58 866	-
Issuance of common shares in settlement of debts	18	18 008 780	1 800 878	-	-	-	1 800 878
Balance as at March 31, 2019		**123 850 656**	**6 504 107**	**-**	**(8 061 085)**	**1 064 946**	**(492 032)**
Net loss and comprehensive loss		-	-	-	(437 381)	-	(437 381)
Waiver of payment from a company under common control	17	-	-	-	-	144 000	144 000
Balance as at March 31, 2020		**123 850 656**	**6 504 107**	**-**	**(8 498 466)**	**1 208 946**	**(785 413)**

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

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

Statements of Cash Flows

(audited - in Canadian dollars)		Years ended March 31 **2020** **$**	2019 $
Operating activities			
Net loss		**(437 381)**	(723 956)
Adjustments:			
Waiver of payment from a company under common control		**144 000**	144 000
Loss on write-off of investment		**1**	-
Changes in working capital items :			
Accounts receivable		**(37 697)**	(22 179)
Tax credits receivable		**(10 082)**	34 037
Reimbursement of annual fees receivable		**(255 616)**	-
Prepaid expenses		**(12 521)**	(2 218)
Trade payables and other payables	18	**89 947**	90 168
Provisions		**359 459**	11 755
Cash flows from operating activities		**(159 890)**	(468 393)
Financing activities			
Due to a company under common control	18	**145 000**	485 600
Cash flows from financing activities		**145 000**	485 600
NET INCREASE (DECREASE) IN CASH		**(14 890)**	17 207
CASH AT BEGINNING OF YEAR		**28 263**	11 056
CASH AT END OF YEAR		**13 373**	28 263

Additional information regarding cash flows is presented in Note 18.

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

Notes to Financial Statements

(in Canadian dollars)

1. Nature of operations and general information

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 22, 2020.

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, 2020, the Company had a negative working capital of $785,413 and a cumulated deficit of $8,498,466.

Furthermore, there is uncertainty about the future of oil and gas exploration in Quebec. Since 2011, a moratorium on shale gas exploration has been imposed in Quebec. This moratorium could have been lifted when the new Hydrocarbons Law (the "Law") was put in place in September 2018. However, certain regulations of this new law cause additional difficulties for oil and gas operations. Refer to note 21 for the obligations, which are contested by the Company, in connection with 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.

In addition, in March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a new strain of coronavirus ("COVID-19"). The epidemic and subsequent measures to limit the pandemic have contributed to significant declines and the volatility of the financial markets. The pandemic has affected global business activity, including by significantly reducing global demand for crude petroleum. The full extent of COVID-19's impact on the Company's business and future financial performance is currently unknown, but may be material. The Company monitors developments in order to be able to take appropriate measures if necessary.

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.

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 instruments are measured on initial recognition at fair value, plus, in the case of financial instruments other than those classified as fair value through profit or loss ("FVPL"), directly attributable transaction costs. Financial instruments are recognized when the Company becomes party to the contracts that give rise to them and are classified as amortized cost, FVPL or fair value through other comprehensive income ("FVOCI"), as appropriate. The Company considers whether a contract (other than a financial asset) contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if the host contract is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. The Company has no financial assets at FVOCI. The Company holds shares of canadian public companies and an option to convert the investment in a debenture that are classified and evaluated as a financial asset at FVPL.

Financial assets at amortized cost

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely paymentsof principal and interest on the principal amount outstanding, and is not designated as FVPL. Financial assets classified as amortized cost are measured subsequent to initial recognition at amortized cost using the effective interest method. Cash and cash equivalents, including accrued interest, accounts receivable, with the exception of sales taxes receivable, and debentures in a private corporation are classified and measured at amortized cost.

3. Significant accounting policies (cont'd)

3.5 Financial instruments (cont'd)

Financial liabilities

Financial liabilities are recognized initially at fair value, net of transaction costs. After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process. Accounts payable and accrued liabilities, provisions and due to a company under common control are classified and measured at amortized cost.

Fair values

The fair value of quoted investments is determined by reference to market prices at the close of business on the statement of financial position date. Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis; and pricing models.

Financial instruments that are measured at fair value subsequent to initial recognition are grouped into a hierarchy based on the degree to which the fair value is observable as follows:

Level 1 : fair value measurements are quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 : fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 : fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Impairment of financial assets

A loss allowance for expected credit losses is recognized in net loss for financial assets measured at amortized cost. At each balance sheet date, on a forward-looking basis, the Company assesses the expected credit losses associated with its financial assets carried at amortized cost and, if any, FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The impairment model does not apply to investment in equity instruments. The expected credit losses are required to be measured through a loss allowance at an amount equal to the 12 - month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date) or full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instruments). A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition. The Company assumes that there is no significant increase in credit risk for instruments that have a low credit risk.

Derecognition of financial assets and liabilities

A financial asset is derecognised when either the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party. If neither the rights to receive cash flows from the assets have expired nor the Company has transferred its rights to receive cash flows from the asset, the Company will assess whether it has relinquished control of the asset or not. If the Company does not control the asset then derecognition is appropriate.

A financial liability is derecognised when the associated obligation is discharged or canceled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

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 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.

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.

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.

3.12 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.

3.13 Remuneration and other share-based payments

The Company grants stock options to certain employees and external directors. 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.

4. Application of International Financial Reporting Standards (IFRS) new and modified

Standard adopted during the year

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 concluded that these changes have no impact on its 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. Management does not expect that the new standards and interpretations published will have a material impact on the financial statements of the Company.

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 COVID-19

The COVID-19 outbreak presents uncertainty and risks to the Company, its performance and the estimates and assumptions used by management in preparing its financial results. The epidemic and current market conditions have increased the complexity of the estimates and assumptions used to prepare the financial statements. Management uses its judgment to assess existence and to estimate future liabilities.

5.2 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 a tax authoritie for the years ended March 31, 2012, 2013 and 2014, refusing expenditures in the calculation of the resource credits. The assessment for these three years 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 for the years covered by the notices of assessment, excluding any applicable interest if the expenditure referred to in the notice of assessment are ultimately rejected.

As at March 31, 2020, the Company recorded a specific provision of $276,759 ($256,605 as at March 31, 2019) in the statement of financial position (Note 9), which includes expenses deemed inadmissible by the tax authority for the years following the notices of assessment, as well as an estimate of the interest to be paid on the notices of assessment and this, despite its disagreement with the assessment since the tax credits for the periods presented have been collected by the Company.

Significant judgments

5.3 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 exploration and evaluation programs involves significant judgment based on past experience and other factors. Refer to note 2 for more information.

(in Canadian dollars)

5. Critical accounting estimates, judgements and assumptions (cont'd)

Significant judgments (cont'd)

5.4 Provision for annual fees

The recognition of 2019-2020 annual fees as a provision involves a certain degree of judgment with regard to a lawsuit brought by the Company against the Ministry of Energy and Natural Resources (MELCC), concerning these fees.

On July 26, 2019, the Company received a notice of payment of the annual fees from the MELCC. These fees would amount to a total amount of $339,305 for the period from September 1st, 2019 to August 31, 2020 and would be shared with the partner Pétrolympic. The Company is contesting this MELCC payment notice and has filed legal proceedings to enforce its rights.

Without prejudice to this legal procedure, the Company has registered, as a provision, the annual fees claimed by the MELCC for the year 2019-2020. As at March 31, 2020, the Company recorded a specific provision of $339,305, of which $101,791 is receivable from its partner (none as of March 31, 2019) in the statement of financial position (note 9).

6. Receivables

	2020	2019
	$	$
Accounts receivable	**93 978**	49 658
Sales tax receivable	**1 648**	8 271
Receivables	**95 626**	57 929

7. Invesment in a private company

	2020	2019
	$	$
Debenture, 10.00%, matured on September 8, 2019.	**-**	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, matured 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, 2019, the fair value of the debenture and the conversion option was set at $1. The fair value is nil as at March 31, 2020 since it has expired.

(in Canadian dollars)

8. Trade payables and other payables

	2020	2019
	$	$
Accounts payable	**65 338**	33 046
Interest payable - company under common control	**69 305**	11 650
Trade payables and other payables	**134 643**	44 696

9. Provisions

	Annual fees for 2019-2020	**Account to be paid in negotiation**	**Refundable tax credits related to resources**	**Total**
		$	**$**	**$**
As at April 1st, 2018	**-**	**8 000**	**244 850**	**252 850**
Additions	**-**	**-**	**11 755**	**11 755**
As at March 31, 2019	**-**	**8 000**	**256 605**	**264 605**
Additions	**339 305**	**-**	**20 154**	**359 459**
As at March 31, 2020	**339 305**	**8 000**	**276 759**	**624 064**
Current	**339 305**	**8 000**	**276 759**	**624 064**
Non-current	**-**	**-**	**-**	**-**

As at March 31, 2020, a specific provision of $339,305 is recognized in the statement of financial position for the 2019-2020 annual fees (note 5).

As at March 31, 2020, the Company recognized a specific provision of $276,759 in the statement of financial position (note 5). An addition of $20,154 was added to this allowance in the year ended March 31, 2020 ($11,755 during the year ended March 31, 2019) to reflect interest accruing from the passage of time.

As at March 31, 2020, 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, 2020, with a supplier.

(in Canadian dollars)

10. Equity

10.1 Authorized share capital

Unlimited number of common shares without par value.

10.2 Issued share capital

On August 21, 2018, the Company issued 18,008,780 common shares to settle all debts and interest to paid a totaling $1,800,878 at the conversion date.

10.3 Warrants

The following table shows the continuity of the outstanding warrants as at March 31, 2020:

	Number of warrants	Weighted average exercise price	Fair value allocated
	Number	$	$
Balance as at April 1st, 2018	**1 212 632**	**0,19**	**58 866**
Expired	**(1 212 632)**	**(0,19)**	**(58 866)**
Balance as at March 31, 2019 and as at March 31, 2020	**-**	**-**	**-**

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.

(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 Number	Weighted average exercise price $
Balance as at April 1st, 2018	**1 000 000**	**0,35**
Expired	**(550 000)**	**(0,35)**
Balance as at April 1st, 2019	**450 000**	**0,35**
Expired	**(150 000)**	**(0,35)**
Balance as at March 31, 2020	**300 000**	**0,35**

Stock options granted and exercisable as at March 31, 2020:

Options granted	Options exercisable	Exercise price	Expiration date
300 000	300 000	0,35 $	June 2022
300 000	300 000		

No stock-based compensation was recognized in earnings during the year ended March 31, 2020 (nil in 2019).

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, 2020		At March 31, 2019	
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Financial assets				
Financial assets evaluated at amortized cost				
Cash	**13 373**	**13 373**	28 263	28 263
Receivables (with the exception of sales taxes receivable)	**93 978**	**93 978**	49 658	49 658
Debenture	**-**	**-**	1	1
	107 351	**107 351**	77 922	77 922
Financial liabilities				
Financial liabilities evaluated at amortized cost				
Trade payables and other payables	**134 643**	**134 643**	44 696	44 696
Provisions	**624 064**	**624 064**	264 605	264 605
Due to a company under common control	**440 600**	**440 600**	295 600	295 600
	1 199 307	**1 199 307**	604 901	604 901

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 and provisions is considered a reasonable approximation of fair value due to the short term maturities of these financial instruments (level 3).

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.

(in Canadian dollars)

12. Exploration and evaluation expenditures

Exploration and evaluation expenditures by region are detailed as follows:

			2020
	Additions	**Tax credits**	**Net balance**
	$	**$**	**$**
St.Lawrence Lowlands	45 400	-	**45 400**
Lower St.Lawrence/Gaspe	126 809	(10 082)	**116 727**
Total	**172 209**	**(10 082)**	**162 127**

			2019
	Additions	Net tax credits	Net balance
	$	$	$
St.Lawrence Lowlands	52 000	-	52 000
Lower St.Lawrence/Gaspe	172 561	(19 197)	153 364
Total	224 561	(19 197)	205 364

Exploration and evaluation expenditures by nature are detailed as follows:

	2020	2019
	$	$
Geology and geophysics	**36 009**	68 561
Technical consultation	**136 200**	156 000
Total	**172 209**	224 561
Tax credits, net	**(10 082)**	(19 197)
Exploration and evaluation expenditures net of tax credits	**162 127**	205 364

St.Lawrence Lowlands

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

(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 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. The remaining 40% is jointly owned by the Company and Petrolympic. 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 km^2.

Refer to Note 21 for the work obligations related to these exploration permits (which are contested by the Company) and Note 2 on going concern for the current situation regarding oil and gas exploration work in Quebec.

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

Notes to Financial Statements

(in Canadian dollars)

13. General and administrative expenses

Nature of the expenses	**2020**	2019
	$	$
Professional services	**92 345**	130 097
Management fees	**24 000**	24 000
Registration and publication fees	**19 324**	27 684
Insurance	**-**	4 627
Regulations and licensing	**58 671**	226 783
Associations	**3 000**	2 500
Office expenses	**27**	465
	197 367	416 156

14. Financial expenses

	2020	2019
	$	$
Interests on due to a company under common control	**57 655**	90 333
Interest and other bank expenses	**20 231**	12 103
Loss on write-off of investment	**1**	-
	77 887	102 436

(in Canadian dollars)

15. Income taxes

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 :

	2020	2019
	$	$
Net loss before income tax	**(437 381)**	(723 956)
Income tax recovery calculated using the combined canadian federal and provincial rate of 26.575% (26.6% in 2019)	**(116 234)**	(192 572)
Increase (decrease) in income tax resulting from the following:		
Difference between deferred and statutory tax rates	**208**	568
Change in unrecognized temporary differences	**72 402**	150 569
Miscellaneous	**43 624**	41 435
	-	-

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

As at March 31, 2020, the Company has the following temporary differences for which no deferred tax asset has been recognized:

	Federal	Provincial
Exploration and evaluation expenditures	928 326	928 326
Reserves	435 506	435 506
Units issuance costs	2 125	2 125
Non-capital losses	2 799 609	2 799 609

As at March 31, 2020, the Company has deductible capital losses of $102,137 ($102,137 in 2019) of which $12,030 are unrealized ($12,030 in 2019) 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 2040.

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, 2020 and 2019. As at March 31, 2020, 300,000 stock options were anti-dilutive (450,000 as at March 31, 2019).

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

(in Canadian dollars)

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:

	2020	2019
	$	$
Exploration and evaluation expenditures net of tax credits	**159 019**	179 556
Professional services	**37 800**	84 000
Management fees	**24 000**	24 000
Financial expenses	**57 655**	90 333

As at March 31, 2020, there is an outstanding balance of $48,053 ($15,550 at March 31, 2019) resulting from these operations plus interest payable of $69,305 ($11,650 as at March 31, 2019). In addition, the due to a company under common control of $440,600 ($295,600 as at March 31, 2019) is a transaction with related party.

A company under common control waived payment of its services, which are services for the President, for the year ended March 31, 2020. The value of these services is a total of $144,000 ($144,000 in 2019) and was recognized in contributed surplus.

18. Due to a company under common control

During the previous year, the Company converted the amount due ($1,472,695) and interest payable ($328,183) to a company under common control totaling $1,800,878 in 18,008,780 common shares. This transaction had no impact on cash flow.

	Due to a company under common control	**Interest payable to a company under common control, non cash (note 8)**	**Total**
Balance as at April 1st, 2018	1 282 695	249 500	1 532 195
Additions	485 600	90 333	575 933
Conversion of the amount due and interest payable to a company under common control into shares, non-cash (note 10)	(1 472 695)	(328 183)	(1 800 878)
Balance as at March 31, 2019	295 600	11 650	307 250
Additions	145 000	57 655	202 655
Balance as at March 31, 2020	**440 600**	**69 305**	**509 905**

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.

20. Risks related to financial instruments

The Company is exposed to various financial risks. The Company's financial assets and liabilities are summarized, by category, in Notes 3.5 and 11. 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.

(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
	2020	2019
	$	$
Cash	**13 373**	28 263
Receivables (with the exception of sales taxes receivable)	**93 978**	49 658
Book value	**107 351**	77 921

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, 2020, the Company has $13,373 ($28,263 as at March 31, 2019) in cash to meet its current liabilities of $1,199,307 ($309,301 as at March 31 2019). 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. The financial liabilities of the Company have contractual maturities of 30 days or are due on request, except for the due to a company under common control which is repayable on September 30, 2020, and are subject to normal commercial conditions. See Note 2 on going concern.

21. Commitments

As of March 31, 2020, and since 2011, the period of validity of the exploration licenses of any exploration licensee is suspended, including the period of validity of the Company's licenses. The Company contests the enforceability of the annual fees by the Ministry of Energy and Natural Resources. In addition, exploration licensees, including the Company, are exempt from statutory work obligations. The following requirements are provided for in the regulations of the new law adopted on September 20, 2018:

The regulations describe the annual fees as follows:

1° for the first period of validity of the license, \$51.50 per km^2;
2° at the renewal of the license made under section 49, \$103 per km^2;
3° at the renewal of the license made under section 50, \$257,50 per km^2.

The regulations provide the following minimum amounts of work:

1° for the first year of validity of the license, the greater of \$100 per km^2 or \$6,000;
2° for the second year of validity of the license, the greater of \$200 per km^2 or \$12,000;
3° for the third year of validity of the license, the greater of \$300 per km^2 or \$18,000;
4° for the fourth year of validity of the license, the greater of \$400 per km^2 or \$24,000;
5° for the fifth year of validity of the license, the greater of \$500 per km^2 or \$30,000;
6° from the first renewal of the license under section 49, the greater of \$500 per km^2 or \$40,000.

22. Subsequent Events

On April 15, 2020, a company under common control has made an additional advance of \$10,000. On May 11, 2020 two additionnal advances of respectively \$25,000 and \$17,000 was made by the company under common control, and an advance of \$15,000 on May 12, 2020. On July 2, 2020, the company under common control made another advance of \$ 20,000. This brings the due to a company under common control (bearing interest at 15% payable September 30, 2020) to a balance of \$527,600.