



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

FINANCIAL STATEMENTS

AS AT MARCH 31 2021 and 2020



Independent auditor's report

To the Shareholders of Squatex Energy and Resources Inc.

Our opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Squatex Energy and Resources Inc. (the Company) as at March 31, 2021 and 2020, and of 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, 2021 and 2020;
- 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 financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. 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.

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
1250 René-Lévesque Boulevard West, Suite 2500, Montréal, Québec, Canada H3B 4Y1
T: +1 514 205 5000, F: +1 514 876 1502



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 of the financial statements that give a true and fair view in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that give a true and fair view and 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 International Standards on Auditing 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 International Standards on Auditing, 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, actions taken to eliminate threats or safeguards applied.

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

/s/PricewaterhouseCoopers LLP¹

Montréal, Quebec
July 27, 2021

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

SQUATEX ENERGY AND RESSOURCES INC.

(An oil and gas exploration company)

Statements of Financial Position**March 31**

		2021	2020
<i>(audited - in Canadian dollars)</i>	Notes	\$	\$
ASSETS			
Current			
Cash		69 523	13 373
Accounts receivable	6	10 518	95 626
Reimbursement of annual fees receivable		-	255 616
Tax credits receivable		9 096	29 279
Prepaid expenses		-	20 000
		89 137	413 894
Total assets		89 137	413 894
LIABILITIES AND SHAREHOLDER'S DEFICIENCY			
LIABILITIES			
Current			
Trade payables and other payables	7	176 221	134 643
Provisions	8	974 142	624 064
Due to a company under common control , bearing interest at the rate of 15 %, payable on demand	17	522 600	440 600
Total liabilities		1 672 963	1 199 307
SHAREHOLDER'S DEFICIENCY			
Share capital	9	6 504 107	6 504 107
Contributed surplus	9 & 16	1 352 946	1 208 946
Deficit		(9 440 879)	(8 498 466)
Total shareholder's deficiency		(1 583 826)	(785 413)
Total liabilities and equity		89 137	413 894
Going concern	2		
Commitments	20		
Subsequent event	21		

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

/s/ Jean-Claude Caron
 Jean-Claude Caron
 President

/s/ René Guimond
 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	
		2021	2020
<i>(audited - in Canadian dollars)</i>		\$	\$
Exploration and evaluation expenses	12	157 674	162 127
General and administrative expenses	13	659 798	197 367
Operating loss		(817 472)	(359 494)
Financial expenses	14	(124 941)	(77 887)
Net loss and comprehensive loss		(942 413)	(437 381)
Net loss per share, basic and diluted	16	(0,0076)	(0,0035)
Weighted average number of common shares outstanding		123 850 656	123 850 656

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 \$	Deficit \$	Contributed surplus \$	Total Shareholders' deficiency \$
Balance as at April 1, 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	16	-	-	-	144 000	144 000
Balance as at March 31, 2020		123 850 656	6 504 107	(8 498 466)	1 208 946	(785 413)
Net loss and comprehensive loss		-	-	(942 413)	-	(942 413)
Waiver of payment from a company under common control	16	-	-	-	144 000	144 000
Balance as at March 31, 2021		123 850 656	6 504 107	(9 440 879)	1 352 946	(1 583 826)

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

	Years ended March 31	
	2021	2020
<i>(audited - in Canadian dollars)</i>	\$	\$
Operating activities		
Net loss	(942 413)	(437 381)
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	85 108	(37 697)
Tax credits receivable	255 616	(255 616)
Reimbursement of annual fees receivable	20 183	(10 082)
Prepaid expenses	20 000	(12 521)
Trade payables and other payables	17 41 578	89 947
Provisions	350 078	359 459
Cash flows from operating activities	(25 850)	(159 890)
Financing activities		
Due to a company under common control	17 82 000	145 000
Cash flows from financing activities	82 000	145 000
NET INCREASE (DECREASE) IN CASH	56 150	(14 890)
CASH AT BEGINNING OF YEAR	13 373	28 263
CASH AT END OF YEAR	69 523	13 373

Additional information regarding cash flows is presented in note 17.

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 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 27, 2021.

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, 2021, the Company had a negative working capital of \$1,583,826 and a cumulated deficit of \$9,440,879.

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 20 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.

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

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 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 payments of 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.

SQUATEX ENERGY AND RESSOURCES INC.

(An oil and gas exploration company)

Notes to Financial Statements

(in Canadian dollars)

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.

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

Notes to Financial Statements

(in Canadian dollars)

3. Significant accounting policies (cont'd)

3.5 Financial instruments (cont'd)

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.

3.6 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.

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

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.

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.

SQUATEX ENERGY AND RESSOURCES INC.
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Notes to Financial Statements

(in Canadian dollars)

3. Significant accounting policies (cont'd)

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

4.1 Amendment to IAS 1 Presentation of Financial Statements

The IASB has made changes to IAS 1 Presentation of Financial Statements that standardize the definition of materiality in all IFRS and the Conceptual Framework for Financial Reporting, clarify when information is material, and incorporate some of the guidance. IAS 1 on non-material information. Specifically, the amendments clarify that information is material if the omission, misrepresentation, or obfuscation can reasonably influence the decisions that primary users of general purpose financial statements make based on those financial statements. Materiality depends on the nature or extent of the information, or both. An entity assesses whether information, individual or in combination with other information, is significant in the context of its financial statements taken as a whole. The Company adopted IAS 1 on April 1, 2020, but it did not have a material impact on the disclosures to be provided in the 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.

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

Notes to Financial Statements

(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 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 authority 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, 2021, the Company recorded a specific provision of \$302,963 (\$276,759 as at March 31, 2020) in the statement of financial position (note 8), 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.

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

Notes to Financial Statements

(in Canadian dollars)

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

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.

5.4 Provision for annual fees

The recognition of 2019-2020 and 2020-2021 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. On October 31, 2020, the Company received a notice of payment of the 2020-2021 annual fees from the MELCC. These annual fees would amount to a total of \$342,599 and would also be shared with the partner Pétrolympic. In November 2020, the Company paid a part of the 2020-2021 annual fees to the MELCC. On March 31, 2021, the Company received a statement of account showing the annual fees for 2019-2020 and for 2020-2021 and interests relating to the late payment of these fees. The Company is contesting this MELCC payment notice and the statements of account and has filed legal proceedings to enforce its rights.

Without prejudice to this legal procedure, the Company has registered, as a provision in the statement of financial position, the annual fees claimed by the MELCC for the year 2019-2020 and for the year 2020-2021 (net of the payment made in November 2020). As at March 31, 2021, the Company recorded a specific provision of \$663,179, (\$339,305 as at March 31, 2020) of which \$198,954 (\$101,791 as of March 31, 2020) would be receivable from its partner if the Company paid these amounts (note 8).

6. Receivables

	2021	2020
	\$	\$
Accounts receivable	251 749	93 978
Impairment provision	(251 749)	-
	-	93 978
Sales tax receivable	10 518	1 648
Receivables	10 518	95 626

Accounts receivable are accounted at initial fair value after allowance for expected credit loss. The allowance for expected credit loss, which amounts to \$251,749 is based on assumptions about risk of default and expected loss rates. The Corporation uses judgement in making these assumptions and selecting the inputs to the impairment calculation, existing market conditions as well as forward looking estimates at the end of each reporting period. The Corporation considered any potential impact of the COVID-19 pandemic in its analysis of expected credit losses.

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7. Trade payables and other payables

	2021	2020
	\$	\$
Accounts payable	32 102	65 338
Interest payable - company under common control	144 119	69 305
Trade payables and other payables	176 221	134 643

8. Provisions

	Annual fees for 2019-2020 and for 2020- 2021	Account to be paid in negotiation	Refundable tax credits related to resources	Total
		\$	\$	\$
As at April 1st, 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
Additions	323 874	-	26 204	350 078
As at March 31, 2021	663 179	8 000	302 963	974 142
Current	663 179	8 000	302 963	974 142
Non-current	-	-	-	-

As at March 31, 2021, a specific provision of \$663,179 (\$339,305 as of March 31, 2020) is recognized in the statement of financial position for the 2019-2020 and the 2020-2021 annual fees, as well as the interest that relate to it (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 \$26,204 was added to this allowance in the year ended March 31, 2021 (\$20,154 during the year ended March 31, 2020) to reflect interest accruing from the passage of time.

As at March 31, 2021, the Company recognized a specific provision of \$8,000 (idem as at March 31, 2020) in the statement of financial position in connection with an account payable which is still under negotiation, as at March 31, 2021, with a supplier.

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9. Equity

9.1 Authorized share capital

Unlimited number of common shares without par value.

9.2 Issued share capital

There were no issuances of shares during the years ended March 31, 2021 and 2020.

9.3 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.

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, 2019	450 000	0,35
Expired	(150 000)	(0,35)
Balance as at March 31, 2020	300 000	0,35
Expired	-	-
Issued	-	-
Balance as at March 31, 2021	300 000	0,35

Stock options granted and exercisable as at March 31, 2021:

Options granted	Options exercisable	Exercise price	Expiration date
300 000	300 000	0,35 \$	June 2022
<u>300 000</u>	<u>300 000</u>		

No stock-based compensation was recognized in earnings during the year ended March 31, 2021 (nil in 2020).

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10. 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, 2021		At March 31, 2020	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Financial assets				
Financial assets evaluated at amortized cost				
Cash	69 523	69 523	13 373	13 373
Receivables (with the exception of sales taxes receivable)	-	-	93 978	93 978
	69 523	69 523	107 351	107 351
Financial liabilities				
Financial liabilities evaluated at amortized cost				
Trade payables and other payables	176 221	176 221	134 643	134 643
Provisions	974 142	974 142	624 064	624 064
Due to a company under common control	522 600	522 600	440 600	440 600
	1 672 963	1 672 963	1 199 307	1 199 307

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 2).

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 18 and 19 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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11. Exploration and evaluation expenditures

Exploration and evaluation expenditures by region are detailed as follows:

	2021		
	Additions	Tax credits	Net balance
	\$	\$	\$
St.Lawrence Lowlands	44 817	-	44 817
Lower St.Lawrence/Gaspe	122 122	(9 265)	112 857
Total	166 939	(9 265)	157 674

	2020		
	Additions	Net 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

Exploration and evaluation expenditures by nature are detailed as follows:

	2021	2020
	\$	\$
Geology and geophysics	32 489	36 009
Technical consultation	134 450	136 200
Total	166 939	172 209
Tax credits, net	(9 265)	(10 082)
Exploration and evaluation expenditures net of tax credits	157 674	162 127

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 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 km².

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.

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12. General and administrative expenses

Nature of the expenses	2021	2020
	\$	\$
Professional services	121 635	92 345
Management fees	24 000	24 000
Registration and publication fees	19 134	19 324
Regulations and licensing	240 280	58 671
Expected credit loss	251 749	-
Associations	3 000	3 000
Office expenses	-	27
	659 798	197 367

13. Financial expenses

	2021	2020
	\$	\$
Interests on due to a company under common control	74 814	57 655
Interest and other bank expenses	50 127	20 231
Loss on write-off of investment	-	1
	124 941	77 887

14. 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 :

	2021	2020
	\$	\$
Net loss before income tax	(942 413)	(437 381)
Income tax recovery calculated using the combined canadian federal and provincial rate of 26.500% (26.575% in 2020)	(249 739)	(116 234)
Increase (decrease) in income tax resulting from the following:		
Difference between deferred and statutory tax rates	360	208
Change in unrecognized temporary differences	204 592	72 402
Miscellaneous	44 787	43 624
	-	-

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

As at March 31, 2021, the Company has the following temporary differences for which no deferred tax asset has been recognized:

	Federal	Provincial
Exploration and evaluation expenditures	951 551	951 551
Reserves	197 992	197 992
Non-capital losses	3 788 061	3 788 061

As at March 31, 2021, the Company has deductible capital losses of \$102,137 (\$102,137 in 2020) of which \$12,030 are unrealized (\$12,030 in 2020) 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 2041.

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15. 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, 2021 and 2020. As at March 31, 2021 and 2020, 300,000 stock options were anti-dilutive.

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

16. 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:

	2021	2020
	\$	\$
Exploration and evaluation expenditures net of tax credits	156 834	159 019
Professional services	33 717	37 800
Management fees	24 000	24 000
Financial expenses	74 814	57 655

As at March 31, 2021, there is an outstanding balance of \$15,636 (\$48,053 at March 31, 2020) resulting from these operations plus interest payable of \$144,119 (\$69,305 as at March 31, 2020). In addition, the due to a company under common control of \$522,600 (\$440,600 as at March 31, 2020) 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, 2021. The value of these services is a total of \$144,000 (\$144,000 in 2020) and was recognized in contributed surplus.

17. Due to a company under common control

	Due to a company under common control	Interest payable to a company under common control, non	Total
Balance as at April 1st, 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
Reimbursement	(215 000)	-	(215 000)
Additions	297 000	74 814	371 814
Balance as at March 31, 2021	522 600	144 119	666 719

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18. 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 9 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.

19. 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 10. 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.

19.1 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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19. Risks related to financial instruments (cont'd)

19.2 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
	2021
	2020
	\$
	\$
Cash	69 523
Receivables (with the exception of sales taxes receivable)	-
Book value	69 523
	13 373
	93 978
	107 351

The Company's credit risk arises mainly from accounts receivable which were fully impaired as at March 31, 2021, due to significant impairment factors. The Company does not require a guarantee. The accounts receivable balance is managed and analyzed on an ongoing basis.

Management of the Company believes that the credit quality of all of the financial assets described above that are not impaired or past due at each reporting date is good.

A financial asset of \$251,749 was impaired as at March 31, 2021 because there were, at that date, significant signs of impairment (no impairment had been recorded in previous periods).

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

19.3 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, 2021, the Company has \$69,523 (\$13,373 as at March 31, 2020) in cash to meet its current liabilities of \$1,672,964 (\$1,199,307 as at March 31 2020). 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 demand, and are subject to normal commercial conditions. See note 2 on going concern.

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20. Commitments

As of March 31, 2021, 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, \$52 per km²;
- 2° at the renewal of the license made under section 49, \$105 per km²;
- 3° at the renewal of the license made under section 50, \$262 per km².

The regulations provide the following minimum amounts of work:

- 1° for the first year of validity of the license, the greater of \$102 per km² or \$6103;
- 2° for the second year of validity of the license, the greater of \$203 per km² or \$12206;
- 3° for the third year of validity of the license, the greater of \$305 per km² or \$18,310;
- 4° for the fourth year of validity of the license, the greater of \$407 per km² or \$24,413;
- 5° for the fifth year of validity of the license, the greater of \$509 per km² or \$30,516;
- 6° from the first renewal of the license under section 49, the greater of \$509 per km² or \$40,688.

22. Subsequent Event

On June 17, 2021, a company under common control has made an additional advance of \$35,000. This brings the due to a company under common control (bearing interest at 15% and repayable on demand) to a balance of \$557,600.